DECENNIAL ANNIVERSARY NUMBER

The MAGAZINE of WALL STREET

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"SHORT SELLING"

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Steel's War-Tax Burden
HAS IT BEEN DISCOUNTED BY THE DECLINE?
By William T. Connors

"My Investment Creed"—Ida M. Tarbell
A MESSAGE TO WOMEN BY A SELF-SUPPORTING WOMAN
By the author of "The History of Standard Oil"

Past, Present and Future of the Automobile Industry
No. III IN "BUSINESS AND FINANCE" SERIES
By Ernest A. Stephens, Asst. Editor "The Horseless Age"

Convertible Bonds—Their Possibilities
PROFITABLE INVESTMENT SUGGESTIONS
By Irvin Gillis

The Market Outlook
Discovering the Comstock Lode
Sinclair Gulf—What Is It Worth?
The "Sugars"—Higher or Lower?
Consolidated Gas Crisis
Railroad Preferred Stocks
Outlook for Curtiss Aeroplane
Prospects for South Pacific Rails

RICHARD D. WYCKOFF ADDRESSES THE MAGAZINE OF WALL STREET'S READERS

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War Restrictions in Wall Street

THERE can be no doubt about the wisdom of the New York Stock Exchange governors in requiring all members to report the names of customers for whom stocks are borrowed; that is, customers who are short of the market.

In times of peace, such action would be an unwarranted interference in private affairs. But these are not times of peace. We are in the midst of a world-racking war, and the right of the individual to privacy in his business affairs must now give way to war necessities.

The aim of this step is to discriminate between "vicious" short selling and short selling which is not only legitimate but aids in creating a stable market. The operator who first sells short and then circulates false rumors or exaggerated bear news in order to depress prices, or the member of the Exchange who actively aids in the marking down of prices, is taking a stand which is, to say the least, unpatriotic.

The line is to be drawn between the short seller who anticipates what he believes to be the natural working out of economic and investment conditions, and the short seller who endeavors to force the market his way. The action of the former is beneficial in various ways. If the seller has correctly foreseen future bearish developments, he will be buying back his short stocks when those developments actually occur and thus will afford substantial support to the market. This result is so well understood that many experienced operators are accustomed to buy stocks for an advance as soon as "the bear news is all out."

Moreover, a legitimate short interest has the effect of broadening the market, so that investors who must sell can more easily find buyers. There is never a complete absence of demand in a market which contains a considerable short interest, but there have been many illustrations in the past of markets without a short interest in which it has been practically impossible to get a bid for stocks.

The worst panic ever experienced, in point of suddenness and severity of declines, was that of May 9, 1901, when all conditions were so bullish that the short interest had been nearly eliminated. Even stocks ordinarily active and having a broad market then dropped five, ten or more points from one sale to another. During the "Leiter deal" on the Chicago Board of Trade, July wheat in one instance fell 20 cents a bushel in a few minutes. Such a break would have been impossible if there had been a short interest in that delivery.

On November 1, the prices of some of the best dividend-paying stocks on the Pittsburgh Stock Exchange broke 5 to 10 per cent. There was no short interest in those stocks. On the next day minimum prices were established—but not for those stocks actively traded in on the N. Y. Stock Exchange as well as in Pittsburgh, since for those issues the short interest in New York aids in creating an active and stable market in Pittsburgh.

The position taken by the N. Y. Stock Exchange in this matter is sane and reasonable and is an illustration of the new spirit of publicity which has sprung up in Wall Street within the last decade.

THE OUTLOOK

Character of the Liquidation—Causes of Decline—Inflation of Credit—The Rate Case—Price Control—The Market Prospect

WHILE the fact of heavy liquidation in all investment markets is unpleasantly self-evident, the exact sources of the steady selling have not been easy to determine. At a higher level of price it was clear that wealthy men were disposing of their holdings and transferring their funds into the tax-exempt Government bonds. But those interests now say, with all apparent frankness, that they are not selling their stocks and do not intend to sell at present prices. There are no evidences of "institutional" selling. And the odd lot houses tell us that their patrons are buying more stocks than they are selling.

The real trouble seems to be not so much in the pressure of securities for sale as in the lack of buyers. Miscellaneous investors have been selling because they needed the money, either to meet the increased cost of living or to enable them to subscribe for Liberty bonds. The speculators who bought stocks last Fall, and in the temporary enthusiasm of last Spring, gave up hope and sold during the recent unexpected degree of weakness. Such sales have not been greater than would have been easily absorbed under normal conditions. But at present there are few buyers. Hence lower prices.

Causes of the Decline

WHEN we turn to the news situation there is no difficulty in seeing why buyers have been scarce. The disaster on the Italian front must prolong the war. No other conclusion seems possible. The establishment of minimum prices on the Montreal, Toronto and Pittsburgh stock exchanges was bound to cause nervousness and apprehension in other markets. The onerous nature of the excess profits taxes, which reach back to the beginning of 1917, is realized more and more as the law is studied. And our war costs for the first two years of the war are being placed at figures which sound fabulous.

One peculiarity of the long bear market—which has now lasted nearly a year—is that at no time has it been accompanied by "tight money." This is new in our financial history. All previous declines in any way comparable with the present have been attended at various stages of their course by pinches in the money market and by much higher interest rates than those now prevailing.

The reason for this difference lies, of course, in the paternal control over money rates exercised by the Government and the Federal Board, combined with the fact that our new banking laws permit such an extension of credit as to make that control possible and effective.

Prospect of Inflation

DOUBTLESS we are on the way to a 6 per cent money market, but that rate is far from burdensome. It is not a rate that would normally cause extensive liquidation.

And there is no early prospect of money rates above 6 per cent, because of the tremendous possibilities of banking inflation contained in the new Federal Reserve law, as backed up by the war policies of the U. S. Treasury. Mr. Miller, of the Federal Board, calls attention to the fact that inflation has already begun, and states that it is not unreasonable to expect that the Federal Reserve system will be made into a great engine of banking inflation as the war progresses.

He estimates the annual savings of the nation at $15,000,000,000 and annual war taxes at $3,000,000,000. The balance of $12,000,000,000 will, he estimates, fall $5,000,000,000 short of meeting our war requirements. Unless this amount is met by

the additional savings of the people—which would mean $50 each for every man, woman and child in the country—it must be met by the expansion of credit. That a great part of it will have to be met, and is now actually being met, in that way seems to us a foregone conclusion.

From the end of August to date the Federal Reserve banks report an increase in bills discounted of about $200,000,000. It is gratifying to see that the increase is no larger. On the other hand, there is every reason to expect that this is only the beginning. A 6 per cent money rate would bring a further expansion of this item, and it is hard to see how that result can be avoided.

Nevertheless, it is a wonderful tribute to the resources of this country that we can raise a $5,000,000,000 Government loan with so little use of bank credits. There has been more borrowing by subscribers to the Second Liberty Loan than the first, but far less than would naturally have been expected. And bankers believe that the demand for tax-

WALL STREET MEN WHO LED THE LIBERTY LOAN PARADE IN NEW YORK

Left to Right: Seward Prosser, Pres. Bankers Trust; A. H. Wiggin, Pres. Chase National Bank; J. P. Morgan, head of banking institution of that name; Walter E. Frew, Pres. Corn Exchange Bank; James N. Wallace, Pres. Central Trust; Chas. V. Rich, Vice-President National City Bank; Jacob Schiff, Kuhn Loeb & Co.; James F. Curtiss, Secretary Liberty Loan Committee.

exempt bonds will maintain the price of the last loan during the interval until another bond issue becomes necessary.

An incidental of inflation is now appearing in the rising prices of farm lands. An advance in western land values is again notable, after several years of stationary prices.

Railroad Rates Again

THE fact that the Interstate Commerce Commission advanced the hearing date on the 15 per cent rate advance nearly two months beyond that suggested by the roads themselves seems to indicate that the commission is at least partly convinced of the necessity of affording the relief asked for.

The plain fact is that in spite of good earnings most of the roads are short of the ready cash necessary to buy needed cars and locomotives. They are spending the usual amount of money for maintenance of both way and equipment, but that money buys much less. President Smith, of the New York Central, shows that locomotives and cars bought by his company since the beginning of the war would, if bought now, cost 129 per cent more than the company paid for them. Nearly all railroad equipment now being manufactured is destined for France, England or Russia. All over the world is a famine in rolling stock.

The same argument applies to maintenance of way. The roads are doing their best, but in many cases trackage is not being kept up to normal conditions under the tremendous volume of business that is passing over it. In some instances carriers have been compelled to pay 10 per cent for short-term money, which was absolutely required for use in maintaining the road and equipment in condition to handle their big war traffic.

A western banker advocates admission by the Federal Reserve Board of short-term railroad paper to rediscount privileges on the same basis as other high-grade commercial paper. This would be a sensible move and would help. But higher rates would meet the situation in an entirely just and reasonable way and would avoid any further tendency toward banking inflation. It is certainly to be hoped that higher rates will be granted, and it is difficult for us to see how any other conclusion can be reached by the commission.

Progress with Price Control

THE raising of the Government's fixed price for soft coal 45 cents undoubtedly corrects an original error in placing the price too low for the greatest production. But it could not be expected that such a tremendous venture into an uncharted field could be carried through without at least temporary errors. If these errors are promptly recognized and corrected, that is all that can be asked.

The new licensing system now in effect, which puts all manufacturers of food supplies, jobbers, wholesale dealers, commission men and big retail dealers in the food business under close Government supervision, will have far-reaching effects.

All this is a new experiment in economics, forced upon us by an extraordinary situation—a situation where no increase in price would be sufficient to bring forward supplies to equal the demand. Under such conditions it is evident that something new must be tried, and the governments of the world are tackling the situation as best they can.

The Market Prospect

THERE is as yet no evidence that liquidation in the stock market is over. Many issues are selling at panic levels, but without any panic. Lack of buying power is the trouble, rather than any heavy pressure of selling, but nevertheless offerings of stocks come forward steadily from a variety of sources.

There has recently been a renewal of selling for foreign account. Some of the American securities pledged here as collateral for foreign loans are understood to have been thrown on the market.

Big financial interests, in view of the heavy burden of war and other financing which they must help to carry, do not care to assume the additional task of stemming the tide of liquidation, so long as it continues in an orderly manner and without adverse effects on general business conditions. Their attitude is that the price level of securities is unimportant compared with winning the war, and a growing appreciation of the magnitude of that task is one of the principal causes of declining prices.

November 5, 1917.

Steel Stocks and War Taxes

Outlook for the Industry Under the New Conditions—The Question of Cash Resources—Effect on U. S. Steel Common—Broad View of Market Conditions

By **WILLIAM T. CONNORS**

IN the July 21 issue of THE MAGAZINE OF WALL STREET, when U. S. Steel common was selling around $125 a share and other steel stocks in proportion, there appeared an article by Thos. L. SexSmith entitled "Present Status and Market Outlook for Steel Common," from which I quote the following remarkable forecast:

> "Basing judgment on the statistics at hand, first, the rounding of the unfilled tonnage curve for the first time in two and one-half years; second, what promises to be a peak in the net earnings curve, on account of a peculiar grouping of unfavorable conditions; third, a seven weeks' halt in the upward climb of the market price for the common shares of the corporation; fourth, the extraordinarily large turn-over of approximately 8,000,000 shares of the common stock (equal to over one and one-half the entire common stock capitalization) within a price range of nine points and on the top, practically, of an advance of nearly 100 points since the early months of 1915, we arrive at the definite conclusion that the final turn in the 100-point rise has already been recorded."

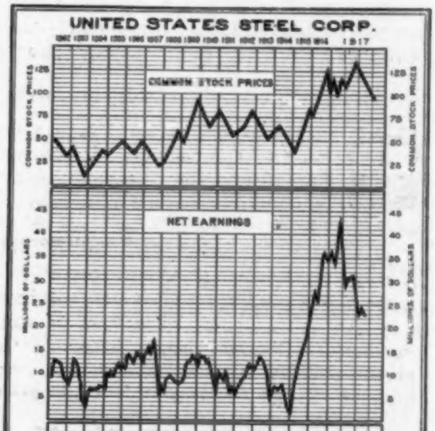
The graphic herewith shows the astonishing manner in which the above predictions have been fulfilled. The price of the stock, then about 125, has fallen below par and below all the "support" points of the first quarter of 1917. Monthly net earnings, as reported by the company, have been almost cut in half. And unfilled orders, then close to the highest point reached, have now fallen steadily for six months.

All this has occurred in spite of a constant demand for more steel than can be manufactured. The war pressure for more and more steel is insistent and unsatisfied. But economic law is inexorable. Higher wages, inefficient labor, higher cost of materials, scarcity of fuel, congestion of transportation, wear and tear on machinery and plant, and the necessary deductions from earnings to cover estimated war income and excess profits taxes have played havoc with earnings and with the price of the stock.

Uncertainties as to future conditions and prices in the trade, doubts as to how the Government's price-fixing program will work out, and limitation of private orders in order to avoid interference with production for the Government have gradually pulled down the unfilled tonnage on the books.

Steel Industry Under New Conditions

In the meantime the situation in the industry has been completely subverted. The fixed price policy now covers all important materials and products connected with the



trade—in fact, practically everything except labor, which is getting higher wages than ever, and for less work. Production is limited, not by demand, but by the supply of labor, fuel and materials which can be obtained and by the capacity of the plant—now strained to its utmost for nearly two years, with repairs considerably below the natural requirements under the record-

breaking volume of products turned out.

In regard to fixed prices Judge Gary recently said:

"The members of our committees have insisted upon higher prices than the ones finally agreed upon, but they consented to those which were fixed because they were influenced by motives of patriotism and also because they were convinced that in the main the prices came within the original proclamation on the subject by the President, which, from the standpoint of the Chief Executive of the nation, was reasonable.

"It may be suggested that some of the producers may realize larger profits per unit than others owing to greater diversity of commodities, favorable location, better organization, larger production or other facilities which tend to lower costs, but if so, the progressive rates of governmental excess profits tax, depending upon the relative net earnings of the different producers, will largely offset the differences in net result. It is estimated some of the manufacturers will be obliged to pay to the Government as high as 50 per cent. excess profits tax.

"If there should be dissatisfaction concerning prices or the details relating to production or distribution of tonnage, production and deliveries must continue without interruption or diminution, leaving any question at issue to be settled at a later date. So long as the attitude of those in control of governmental affairs toward producers remains as it is at present it must be the effort, as it will be the pleasure, of every one of the latter to do his part unselfishly, whole-heartedly and assiduously."

Excess Profits Tax

The most serious of the new burdens is the excess profits tax. The experts are still struggling with the interpretation of this law. The chief difficulty lies in deciding what is to be considered as "invested capital."

The excess profits tax applies to the earnings of corporations from Jan. 1, 1917. Income exempted from the tax is from 7 to 9 per cent. on the present capital invested, the exact per cent. depending upon pre-war earnings. The tax on the remaining income is graduated according to the per cent. earned on capital invested.

On the first 15 per cent. (less the exemption) the tax is at the rate of 20 per cent.; on the next 5 per cent. (that is, profits of 15 to 20 per cent.) the rate is 25 per cent.; on the next 5 per cent. of income the rate is 35 per cent.; on the next 8 per cent. the tax is 45 per cent., and on the remaining income (all in excess of 33 per cent.) the tax is at the rate of 60 per cent.

U. S. Steel has about $1,500,000,000 of stocks and bonds outstanding—but how much of this represents "invested capital" under the intent of the law? This question is vital to any estimate of the amount of the company's taxes for 1917, and the result has been very wide variation in estimates. The Government, it is reported, will decide the interpretation of the law by a conference of attorneys.

In the meantime it is impossible to say definitely what the tax will amount to. But the best information now obtainable—and we get it from semi-official sources—is that U. S. Steel's war tax deductions for the year 1917 will be not less than $220,000,000 and may reach $250,000,000, or $43 to $49 per share on the common stock.

What This Means to Earnings

U. S. Steel's earnings for its common stock before deduction of war taxes have been estimated at about $415,000,000 for the full year 1917. This estimate is probably too high, but if we accept it as correct, and deduct, let us say, $240,000,000 for taxes, we have left $175,000,000 for the stock, or at the rate of 34½ per cent.

There are, however, reasons for thinking that actual earnings will not reach that figure. In the first place, whatever orders the U. S. Steel Corporation now has on its books at prices above those fixed by the Government are of doubtful value. The orders have all along been understood to be "firm," or not subject to cancellation—but the buyer is not obliged to specify against his orders at any particular time. With lower prices now fixed by the Government, he will naturally delay specifying until he tires the big corporation out.

This fact is so well understood in the steel trade that the subject is now under consideration by the Government, and it is probable that some arrangement will be arrived at in regard to these private orders by agreement between the parties. It may be taken as practically settled that Government prices, or figures very near them, will apply on most of the business turned out by the steel companies from now on.

Moreover, the whole question of higher wages, reduced efficiency of labor, reduction of output through scarcity of materials and congestion of transportation, heavy depreciation resulting from running the plant at high pressure, big new construction necessary to meet the Government's needs, and so on, introduces so many elements of

uncertainty into estimates of net earnings as to make them of doubtful value. The time has passed when earnings were likely to exceed estimates. The current is now running all in the opposite direction. The war taxes themselves may increase, but are certain not to decrease while the war lasts.

Is the Cash Available?

Still more interesting is the question where the company is to get the cash to pay these tremendous taxes. For the first three-quarters of the year it has deducted from earnings about $164,000,000 on account of war taxes, but that does not mean that it has any such sum available in cash for the payment of the taxes. High prices for all materials and the constant delay in shipments make it necessary for the company to use a very large amount of cash as working capital, and new construtcion is absorbing a good deal of cash.

The company's last annual report, December 31, 1916, showed that it had $148,000,000 in cash and demand deposits, $41,000,000 in time deposits, and $41,000,000 in marketable securities—which were mostly Anglo-French and British bonds. Since then it has bought over $100,000,000 of U. S. Treasury certificates and has subscribed for $70,000,000 of Liberty bonds.

How much of the company's cash remains unemployed is not definitely known, but in view of its very heavy cash requirements for increased inventories and for new construction it is doubtful whether there will be any surplus left for extra dividends. The company will have bonds and other securities on which it could borrow, but it is unlikely to borrow for the purpose of paying extra dividends in cash.

This is equally true of the other steel companies. Big nominal earnings are one thing and transmuting them into cold cash is another, especially at a time when every business operation requires more money than ever before in our history.

Position of the Market

Taking a broad view of the market for Steel common as shown on the graphic, it is probable that the entire price movement from November, 1916, to date should be looked upon as a period of distribution. The sharp advances have been marked by wild speculative activity. It is a well-known fact that in the boom of last June about 60 per cent. of the $508,000,000 of Steel common outstanding was lodged in brokerage houses. Some of it, perhaps, was carried by brokers for permanent investors, but far the greater part of it was in the accounts of speculators. Steel common above 125 has not appealed to the conservative class of investors. They have been more inclined to reduce their holdings than to add to them.

In dropping below 95 the price has now broken out of this long period of distribution. The "war boom" in the prices of steel stocks is over. Henceforth earnings will be much smaller and extra dividends improbable. This, too, is semi-official.

Steel common must hereafter be considered a 5 per cent. stock until the war is over and the aftermath of war cleaned up.

What is it worth under these new conditions? As a 5 per cent. industrial stock, always of a speculative character, it would naturally be worth 75 to 85, even after we allow for its big assets and for the great extension of its plant during the war.

Other Steel Issues

Owing to the mass of complications and uncertainties which surround the whole situation, it would be of little use to attempt a hypothetical analysis of the earnings of all the steel companies. It is clear, however, that in a general way all the companies are in the same boat.

The causes which are cutting down the earnings of the big corporation are at work on all the others. There are variations in detail, but the general result must be the same.

The boom on big war earnings—for the most part never turned into real cash—is a thing of the past. The war profits aeroplane has run out of gasoline. We must volplane our extravagant hopes back to earth as gently as we may.

NEW SERIES BY THE EDITOR

Attention of our readers is called to the announcement on page 12a of the advertising section telling about the new series of articles to be written by the Editor of The Magazine of Wall Street and which will appear exclusively in this publication.—Managing Editor.

The Investment Creed of a Self-Supporting Woman

Principles to Observe and Some Simple Rules to Follow—How Women Should Choose Their Investments and How Take Care of Them—Common-Sense Advice By a Successful Woman of Affairs

By IDA M. TARBELL

FEW professional women give careful study to the matter of personal investment. At least this is my impression from a rather long association with self-supporting women in various professions. They earn well and eagerly. They do not put by methodically and cautiously. There are two parts to the material career: One is self-support; the other is taking regularly from what one earns a sum to set at work for the days when one's earning capacity has dwindled or failed.

Great numbers of brilliant professional women come to very hard places in later years—some even to charity because they have not recognized that there is a second factor in their problem.

The editor of THE MAGAZINE OF WALL STREET has asked me as one of the army of self-supporting professional women to give him my creed on investments. It is simple enough. However, the fact that the principles are obvious does not mean that there is no experience behind them. All the little that I feel so sure of that I do not hesitate to pass it on to others has come out of more or less experiment—some of it very foolish.

Importance of Saving

Of course, the first thing that one must do is to learn to *squeeze out something from the income,* however limited, to put aside. Most women are handicapped at the start in doing this because they have not had early training in handling money. When one has gained such control over her budget that she does save a little sum every year, then comes the question: What shall be done with it?

The First Great Lesson

The first *great lesson to be learned is that investment is not speculation.* To put aside $50 or $100 at 6 per cent. appeals to very few women, or men either for that matter. To put $50 to $100 into an oil or coal or diamond mine which *may* yield 100 per cent. or 150 per cent. a year is altogether thrilling. That is real business in the mind of the amateur. That is worthy of a financier; but $50 at 6 per cent.—who would be so small as to consider such a matter? This is the rock on which numbers of women go to pieces financially.

H. H. Rogers' Dilemma

I remember the late H. H. Rogers, who certainly had experience enough in financial matters, telling me once that he was continually disturbed by the entreaties of ladies to invest their small fortunes. He showed me a letter from a woman, the wife of an old-time friend, who had just $10,000 in the world. She wanted him to invest it in something from which she would get what she called a *"real return."*

"What this lady wants," said Mr. Rogers, "though she does not know it, is that I should speculate with her money, not invest it. She scorns 6 per cent.—wants 50 per cent. For my part," he continued, "I shall find it very lifficult to tell her where to put her $10,000 so that it will be perfectly sure to continue to return her 6 per cent. It is always difficult to be sure that any investment at 6 per cent. is safe."

Safety the Important Consideration

This is one of the things that the investing woman must learn. Safety, if you are a self-supporting woman, *is the*

MISS IDA M. TARBELL

The readers of THE MAGAZINE OF WALL STREET need no introduction to Miss Tarbell. Her writings and especially her book "The History of the Standard Oil Co.," have placed her at the head of women financial writers of America, and second to none of the opposite sex in that field. For that reason she is especially qualified to address the men and women of this country on sound investment. Her article on that theme, herewtih, lays down some easily understandable and easily followed investment precepts which should commend themselves to careful study by every person interested in that intricate and difficult subject.—*Editor.*

first consideration for your savings. The safest things, in human judgment, fail sometimes. I remember an English lady who came to this country after the war broke out. Everything she owned had been invested in the Antwerp Water Works. When she made that investment probably there was nothing in the world that looked more solid; but after the fall of Antwerp, her bonds were but "a scrap of paper" like many other Belgian securities.

Turn Down the Promoter

To get the largest degree of safety for your investment, however small it may be, it is well to learn at the start *to turn a deaf ear to the promoter.* I do not know anything more interesting than yielding an ear to promoters. They are among the most heartening and alluring people that I meet. I would love to believe that all their apple orchards are going to yield what they say they will; that there is oil under all the territory they are testing and gold in all their mines; but it does not take much experience to learn that, as a rule, the promoter has nothing to do at all with investment although he has a great deal to do with speculation. Turn from him and look over established businesses. Find out what they are doing—how long they have been doing it and what their present prospects are. The mine may have been paying for fifty years. If you find on investigation that the probability is that its ore is about exhausted, it is no place for your money.

Investigate the Management

Learn something about the management of the property in which you are going to invest. A great many people in New England would have been saved tremendous hardship in the last decade if they had been wise enough to see that a band of buccaneers were busy with the transportation system of that part of the world, trying to realize fabulous profits by carrying out a scheme which had little or nothing to recommend it except the imagination of its effrontery. Have nothing to do with a stock where buccaneers, however high-sounding their names, are at work.

Keep Yourself Informed

Having made an investment, follow the business in which you are interested. *Know what is doing.* If you do not understand, ask. You have a right as a stockholder to know; and if more stockholders exercised their rights, there would be fewer business failures.

Again by following the business intelligently, one can very often get out before a season of dry-rot sets in and put one's money into something that is more alive.

Where something proves itself sound, hold on to it, even if you feel sure there is another investment in sight which would pay you a little more and possibly be just as sure. There is usually expense and some loss in transferring an investment. Moreover, you owe something to an enterprise which has been faithful to you.

Separate Your Investments

The fallibility in all property is such that one is wise *not to put all her eggs in one basket.* It is better to scatter—not too widely, probably, but wisely. Where everything is in one place, even if it be a thing as enduring, on the surface, as the Antwerp Water Works, there is always a possibility of disaster; and if disaster comes, everything goes.

Learn by your mistakes. If the investment fails, do not charge it to somebody else. You made it. Hold yourself responsible for it.

Value of Advice

As a general and final rule, I should say that the best guide for anyone to have in the matter of putting aside annually something from her income *is her own common sense.* Consult it. Rely on it. Hold it up to its own errors. If, however, you find, after sufficient experience, that you have no common sense in these matters, or even though you have it, you do not always consult and follow it, then the wisest plan is to consult and follow the best disinterested advice you can get from people whose investment creed is based on the simple principles I have just laid down.

One more word—the ideal investment for the professional women of today is the Liberty Loan.

BUSINESS AND FINANCE SERIES

NO. III

Past, Present and Future of the Automobile Industry

Marvelous Growth of the Motor Car Trade—Present Problems—Demands of War—That "Saturation Point"—What After the War?

By ERNEST A. STEPHENS
Associate Editor, *The Horseless Age*

ONE hundred and fifty years ago saw a practical automobile running in France; about the same time and in the same country an abbé conceived the brilliant idea that gun-powder would prove to be more suitable than steam—and actually constructed an internal combustion engine designed to use this explosive as fuel—and from these beginnings the problem of mechanically propelled road vehicles has occupied the minds of many leading engineers right up to the present.

The First American Cars

Gasoline was perfectly well known in the United States sixty years ago, but its possibilities were not realized until some years after Selden, in 1879, filed what proved to be the pioneer patent of the automobile trade. In fact, so little was it realized that any potential force was possessed by gasoline that there is a patent specification filed in Washington which describes an engine in which turpentine formed the fuel and water was used for lubrication. By the way, this particular engine was fitted with a self-starter of extremely modern appearance.

Turn for a moment to the present and note that in the intervening twenty-two years the growth of the industry has been so phenomenal that there are now upwards of 4,250,000 automobiles of various types in actual use in this country.

Enormous as has been our progress it has not been achieved without its difficulties and attendant discouragements. Litigation has interfered to some extent and development has been delayed in the past by the unwillingness of engineers to accept or act upon the experience of others. Nevertheless, the figures in the table herewith speak for themselves in no uncertain way:

FIFTEEN YEARS OF AMERICAN AUTOMOBILE PRODUCTION

Year	No. of cars built
1903	11,000
1904	21,700
1905	25,000
1906	34,000
1907	44,000
1908	85,000
1909	126,500
1910	187,000
1911	210,000
1912	378,000
1913	485,000
1914	515,000
1915	892,000
1916	1,200,000
1917	1,690,000

These figures prove the meteoric rise of the automobile industry, particularly since the electric self-starter came into general use in 1913-15, and they disprove the croakings of the few who have prophesied a general smash-up of the trade under abnormal labor and raw material conditions brought about by the world war.

It would be idle to affirm that three years and more of international unrest have not had

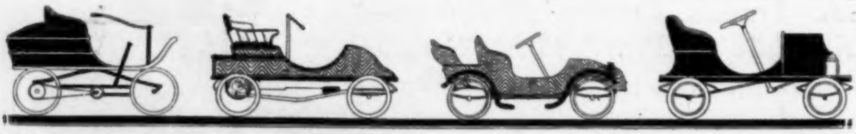
their natural effect—had conditions been otherwise the production for 1917 would undoubedly have passed the two million car mark and there would now have been possibly five million automobiles operating throughout the country.

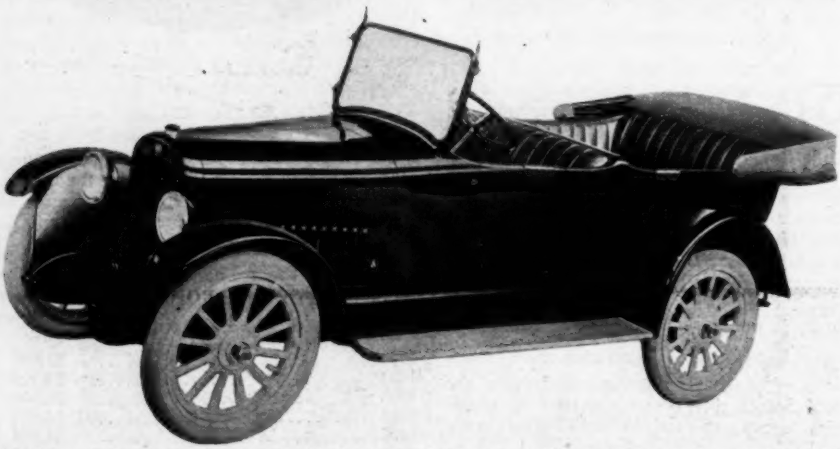
Present-Day Production Problems

Price is the predominating factor, but it is not the only one. Today the car manufacturer is faced with many difficulties of which shortage of labor, both skilled and unskilled, and irrespective of cost, is by no means the least. Better manufacturing facilities have eliminated the human element in car production about as far as it is possible to do so, but nevertheless the country's calls for men are not to be measured by the number of actual fighters on land and sea, but by the thousands upon thousands which have been drafted into the armies of commerce.

Not only has both skilled and unskilled labor been diverted from its regular occupations, but factory after factory has been mobilized in the production of munitions of war. Naturally enough the automobile manufacturer has been called upon to "do his bit" and he has done and is doing it. Airplanes, aviation engines, shell cases, shrapnel, fuses, machine and field guns and the countless parts needed for replacements are being turned out day and night in many of the factories where formerly the problem uppermost in the minds of the executive was simply how many model Z six-cylinder cars and how many type A never-break fours could be built per week. On top of all this Uncle Sam is demanding (and getting) trucks and then more trucks—six big factories are handling the Government's first order for army trucks and this first order is only about ten per cent. of what may be needed in a few months.

Getting back to the price problem: it is a matter of common knowledge that car prices have been advancing steadily for some time past and there are indications that further advances will be made. It is not so generally known, however, that up to the present the car builder has been shouldering the bulk of the increased cost of production himself—not for philanthropic reasons or because profits have been sufficiently large to enable him to do so without feeling the pinch, but because he has been unduly optimistic and has hung on in the hope that prices of raw material would ease a bit. However, there is no immediate hope of any important reduction in the cost of steel, aluminum, copper, leather,





Models of the Original "Horseless" Carriages (above) and Latest 1918 Touring Model With Slanting Wind-Shield and Double Cowl.

or, indeed, in any of the products which he must use.

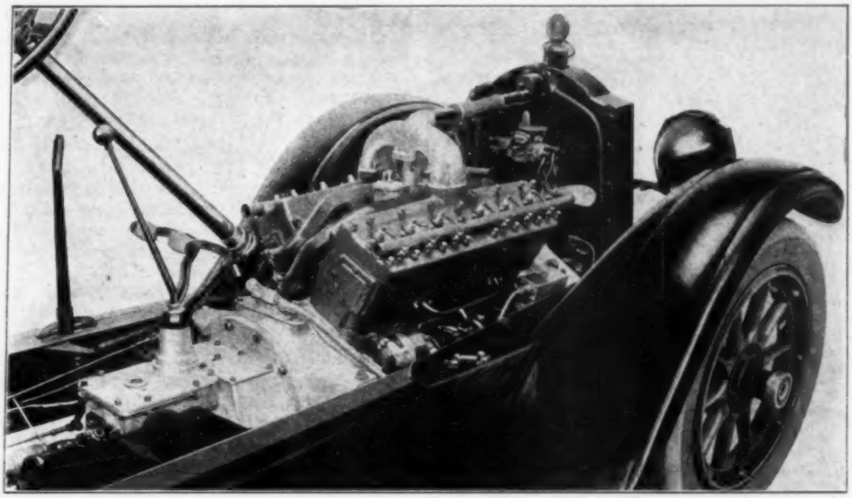
Gasoline is not a pressing problem today, but it may be so tomorrow or the day after. is no less than 350,000,000 gallons. During The needs of our Army and Navy come first and it is estimated that the yearly amount required for these two branches of the service the twelve months ending June 30, 1917, we exported 425,703,130 gallons and we shall have to continue to find sufficient supplies to meet the requirements of our allies on land and sea for perhaps another year. We do not now export gasoline for joy-riding—there isn't any to spare and there isn't any European touring just now—it's not being done any more.

Against these two items we have our total production, minus what we need for use for non-military purposes at home. Tabulated, the figures look like this:

Gasoline refined in the U. S. per year at the present rate....		Gals. 2,500,000,000
Used here for non-military purposes.	Gals. 1,250,000,000	
For Army and Navy	350,000,000	
Exported	425,703,130	2,025,703,130
Available balance		434,396,870

A surplus of nearly half a million gallons looks all right at the first glance, but when it is considered that it has to take care of the needs of stationary engines, farm tractors, airplanes and motor boats other than Government owned, etc., it would certainly seem that the woman who uses gasoline for glove-cleaning may have to look about for a substitute.

There are several substitutes available, but with time as a factor they may be eliminated from present consideration. The waste from our lumber camps would produce sufficient alcohol to run all the cars and trucks in the world and that we waste millions of gallons per year of benzol, a by-product of the gas works. Using alcohol would mean altering automobile engine design; with benzol no change is necessary except in the matter of carburetor adjustment. We are getting a certain amount of gasoline from natural gas, but we should be obtaining many times the amount.



High-Water Mark of Automobile Engine Development—the "Twin Six" 1918 Model.

The Future

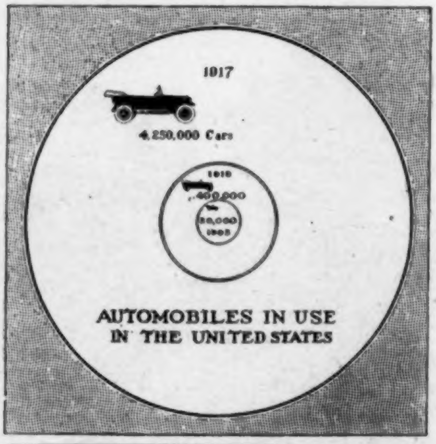
When the spirit of prophecy is abroad, and when an individual endeavors to pry into the future of a trade or business in which his main interests are involved he is apt to put on his rose-colored glasses and to be unduly optimistic. Therefore, let us confine ourselves to hard facts and endeavor to draw logical conclusions from them in relation to what the future holds in store for the automobile industry.

Let it be assumed that the automobile is no longer a luxury and that neither is it a purely sporting proposition as in its early days. Admit that if we had sufficient horses in the United States to perform the work now being done by gasoline cars and trucks, those horses would need every available American acre to produce sufficient food for themselves, and, finally, assuming we could import food for

either the extra horses or for our hundred and odd millions of population—where could we find the extra help needed to cultivate the land and care for the horses? Of course, the thing is impossible, it is merely an illustration of how essential the automobile has become to us.

By the end of the year there will be almost five millions of cars and trucks in active operation within our country; about one to every twenty-two of the population. How many more can be sold? There are nearly seven million farms in the country and farmers are doing pretty well just now! A recent estimate serves to indicate that there are nearly four million farmers who are prospective purchasers of either touring cars or trucks.

Prosperity is evident in every direction, despite the high cost of living, and prosperity spells C-A-R-S. In the automobile trade there is discussion from time to time on what is



usually termed "the saturation point"—the point at which nobody will want to buy a car. A conservative calculation puts the total (including the farmers) at between six and seven millions, but as a matter of fact there is really no such thing as this saturation point. Cars wear out, population increases and, by the way, what about our export trade? We haven't much just now, apart from war orders and South American trade.

Even if the war orders are included our shipments to England, France and Russia have decreased thirty-five per cent during the last fiscal year and the first two countries are still our largest customers for cars and trucks. Canada is our best buyer outside Europe and she is buying largely still. Mexico and the South American Republics are buying in increased quantities, but despite gains outside the war zones our exports dropped nearly $22,500,000 in the year.

There is a reason for this falling off so far as Europe is concerned. Officially it is termed an embargo, actually it may be simply lack of ships, it certainly is due to a shortage of fuel, and heavy taxation in the warring countries would be probably sufficient reason were the others non-existent.

Before the war England and France each built about 40,000 automobiles in a year, Germany and Italy did not build more than half this number and the other European countries built so few that the total is negligible. Australia doesn't build any, neither does South Africa. Since August, 1914, not one of the first three countries built anything in the car line except for military use and since then the various automobile factories have been working day and night to keep up the supply of new vehicles and replacement parts. Practically everything on wheels has been commandeered for service on one or other of the fighting fronts.

After the war, who knows what the extent of our export automobile trade may be? We may be faced by almost prohibitive duties from time to time, but nevertheless—in capitals Mr. Printer, please—WE SHALL BE THE ONLY AUTOMOBILE PRODUCING COUNTRY IN THE WORLD! ! ! That is, the only country with factories, materials and men *ready* for production on a big scale. You may say there won't be any money to pay for automobiles in the countries of Europe, but do not forget there is always money for necessaries, and the automobile has proved itself a necessity in peace as well as in war. After the Franco-Prussian war France paid a huge indemnity in gold long before its due date, and there is every reason to suppose that money will be available for a certain number of automobiles as well as for food and other essentials.

There is another reason why we shall continue to break records in automobile production and that is the expenditure of nearly $25,000,000 in road improvements scheduled for the next fifteen months, in addition to the large amounts previously expended, will make the use of cars both more economical and and more enjoyable and will thus bring new buyers into the field.

Finally, the facts that nearly everything in connection with an automobile is now standardized and that the yearly distinctive model is a thing of the past will have the effect of speeding up production to a point where the ultimate effect of the high cost of material and labor will be brought to the irreducible minimum and the prospects for the future of the automobile industry are so enhanced as to assure its maintaining its position as one of the first half dozen of America's industrial leaders.

MONEY--BANKING--BUSINESS

Leading Opinions

About Financial, Investment and Business Conditions

C. E. Mitchell on New Financing

At the request of the New York *American,* C. E. Mitchell, president of the National City Company, explained his attitude at this critical time toward new financing. Said Mr. Mitchell:

"We will not be involved in any financing that will not help the war. Also, we will not handle any new security issues the proceeds of which are not absolutely necessary to the public good.

"If municipal and State authorities will be conscientious in authorizing expenditures, and provide the financing therefor so that, looking at it from any angle, the expenditures of the money in this country would not consume labor and material needed for the conduct of the war there should not be necessary a priority board in this country. Also, if on corporate financing bankers will control their commitments by applying a similar ruling there will be no need for a priority board.

"For our own part, financing propositions that are brought to us will receive as critical examination from the standpoint of public necessity and assistance in national needs as though a Government priority board would pass upon such financing before we were permitted to offer it to the public."

M. L. Schiff Sounds Warning

A general division of opinion on the question of whether American industries should be reorganized under Government auspices to concentrate their full energy upon the production of war material or whether heavy taxes be levied to meet the costs of the war under the existing system of industrial individualism featured the sessions at Philadelphia of the war finance meeting of the American Academy of Political and Social Science.

Mortimer L. Schiff of New York, presenting the "conservative bankers' view," said there must be no hampering of enterprise by unwise or unjust taxation. He summarized the following requisites as "of paramount importance":

"There must be no hampering of enterprise by unwise or too onerous taxation.

"The public must not be discouraged and values must not be jeopardized by an unfriendly attitude by the Government toward business. Capital as well as labor must be permitted to earn a fair return.

"I am not unaware that the utilization of our credit machinery by the Government and the extension of deposit credit which it will entail, may have the effect of inflation or something analogous to inflation. But inflation of this sort, in any case, not easy to measure quantitatively and perhaps not susceptible of absolute proof, is at all events less dangerous for the future than the resort to fiat money. It is likely to correct itself automatically after the war. So long as specie payments are maintained this sort of inflation cannot maintain itself permanently when conditions of peaceful commerce have been restored. The unwelcome effects which it may have for the time being are in their nature transitory. If we maintain specie payments and refrain from resorting to paper money,

—New York American.

THE STRONGER ELEMENT.

we are spared such evils as came in the drain of the civil war issues."

"No Reason for Low Prices"—Comp. Williams

"There is no reason for the present low prices of stocks and bonds," said Comptroller of the Currency Williams to *Dow Jones & Co.* "The financial situation is good and strong. The country is in excellent shape to withstand the present strain.

"People think it is their patriotic duty to buy Liberty bonds and so it is. But the trouble is there are two classes of people—those who borrow and those who seem to think that to borrow is to break one of the Ten Commandments. Instead of taking their securities to the banks and borrowing on them in order to buy bonds, they are selling them outright to do this.

—*Financial America.*

CROWDED OR PUSHED OFF?

"This is having a bad effect on the security market. It could be stopped if people would only see that money to buy the bonds could easily be obtained by making loans from the banks. It is, of course, unfortunate that this selling should go on while the bond campaign was on.

"The railroad situation could be better. The railroads should either be enabled to get their materials at lower prices or else they should get higher rates."

"Govt. Should Aid Railroad"—W. A. Day

President Day of the Equitable Life Assurance Society, writing in *The Equitable Bulletin,* says: The serious railroad situation calls for no panicky action on the part of security holders, for it is entirely within the power of our national law makers and authorities to relieve it and ultimately eliminate it. But to speak softly of the danger or to minimize it is now folly.

The government is necessarily heavily increasing taxes on railroad investments of our people and at the same time our national policy has operated to reduce both value and earnings of these assets.

Notwithstanding the enormous increase in business, operating expenses are increasing faster than gross on many important railways.

Market value of stocks of 19 of the largest roads has depreciated nearly one billion dollars since 1916.

The market value of even our high-grade railroad bonds has also very greatly declined as a result of conditions described and owing to the fact that government war bonds—foreign and domestic—have now blanketed the railroad bond market.

These railroad properties and their earning capacity constitute the security behind nearly $2,500,000,000 of savings of about forty million people held by savings banks and life insurance companies.

If it is a wise policy as a war measure for our government to set advanced prices of 100 per cent. for staple commodities and to give financial aid to contractors whose services aid in prosecuting the war; if it is right for the government to loan money to Russia, Belgium, Servia and other unfortunate nations to bring early victory in the war, surely it cannot be wrong for the government to give prompt and effective relief in rate advances to the organizations operating its own basic line of communication to the battle front.

Without such support the physical and financial situation of our railways must inevitably grow worse.

"Are Stocks Cheap?"—Geo. Willett

There lives in one of the Western cities a banker who has accumulated a substantial fortune in the stock market, although he started with practically nothing and although he has never made a purchase on margin and has never sold stocks short, writes George Willett in *The Financier.*

He seldom watches the ticker and he makes no effort to keep informed of small fluctua-

tions in the prices of securities. His knowledge of intrinsic values and of economic conditions is undoubtedly exceeded by that of a countless number of individuals, but because he never gambles but merely speculates, or rather invests in a sane and conservative manner, he has made money whereas most people who dabble in stocks lose. The secret of the success which he has achieved is his steadfast adherence to the principle that the only time to buy stocks is when nobody wants them—when they are offered at sacrifice prices and when the ordinary speculator sees no reason for purchasing them.

He makes it his business to always be in a strong cash position so as to be able to take advantage of any sudden decline in prices. In the panic of 1907 he accumulated a long line of stocks on a scale down and during 1908 and 1909 he disposed of them at profits ranging from 30 per cent. to 150 per cent. Late in 1914 and early in 1915, following the outbreak of the war when the stocks which later soared to undreamed of heights were offered at the lowest level in years, he used every cent he had for the purchase of them and during the past two years he disposed of them at very acceptable prices.

It would not be surprising now if stocks sell lower. There is no doubt, however, that they are cheap at current levels and those persons who are courageous enough to purchase them will make handsome profits just as did those who purchased stocks in 1903, 1907 and 1914.

"Utilities Face Crisis"—Prof. Conway

Members of the New Jersey Utilities Association in annual convention at the St. Charles Hotel here heard an address this afternoon by Dr. Thomas Conway, Jr., professor of finance of the University of Pennsylvania. His subject was "The Problem of Higher Operating Costs and Commission Control of Rates." He said in part:

"The cost of operation of every class of public utility is rising so rapidly that only those who are giving close and constant attention to their operation are fully aware of the serious situation which has developed. The testimony before the New York Public Service Commission in the so-called 6 cent fare cases shows the dire straits into which the electric railways have fallen. Less than half the companies are earning their fixed charges; only three out of thirty-three city lines show sufficient earnings to enable them to sell bonds, or, in other words, to secure new capital for additional facilities.

"The utilities are turning to the public service commissions for relief. They are asking that rates be sufficiently increased to equalize the growth in operating expenses. The future of the public utility is dependent largely upon the broadmindedness with which well founded pleas are received and considered."

Steel Journals Decry Uncertainty

Despite the price fixing the steel trade continues considerably disrupted and the atmosphere remains foggy. The *Iron Trade Review* says:

"Whether Government edict or market adjustment will determine prices on the lines of iron and steel yet untouched by Federal action, remains an open question. Division of opinion, which is growing weekly, exists in the industry on this point and nothing has come out of Washington during the week to throw a further light upon what the Government purposes to do in this direction. In the absence of any positive contrary statement that prices will not be fixed, the opinion exists that additional price announcements in some form may be expected."

—*The Globe*

DO YOU SEE WHERE ONE OF THESE BIRDS GETS OFF?

The *Iron Age* says:

"Events continue to show that the War Industries Board is taking a minor position in price fixing. The list of extras to apply to bars, shapes and plates has been announced through a sub-committee of the American Iron and Steel Institute, and the general committee of the institute and its sub-committee chairmen are now in session in New York to settle finally the price question on products not yet fixed. It is doubtful if a conclusion

will be reached at the one conference, but the situation now points to a clearing in a matter of days of the atmosphere of uncertainty."

Gary Defends Excess-Profits Tax

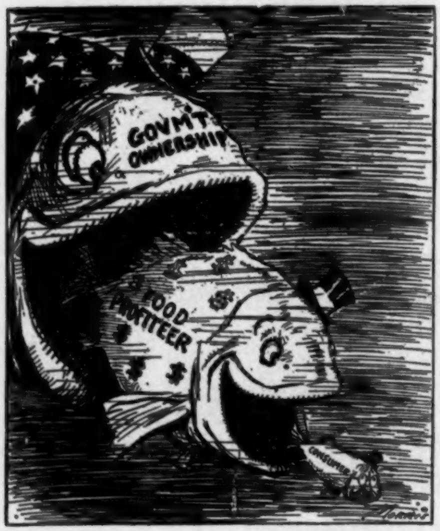
A victory for the United States and its allies in the war would insure peace, progress and prosperity for years to come, ex-Judge E. H. Gary, chairman of the board of directors of the United States Steel Corporation, told the members of the American Iron and Steel Institute at Cincinnati.

Judge Gary said, in discussing price fixing, that the Government representatives had been fair, although in many instances the prices made were far below the level expected by the manufacturers. He defended the excess profits tax as a step toward equalizing returns to manufacturers, although some plants were favored over others. He said in part:

"Many of you were disappointed when the prices of the commodities in which you are particularly interested were announced. Many manufacturers have struggled for existence in periods when business conditions were bad, trusting to the future for improvement, and they have argued that if the law of supply and demand should govern under such circumstances it should control at all times.

"All these things have been considered by the iron and steel committees, and by the representatives of the Government as well. It is only stating facts to say that the former have endeavored to represent the manufacturers conscientiously, intelligently and forcefully and that the members of the War Industries Board have at all the hearings given patient attention, thorough investigation and careful consideration to every claim presented, with the sole purpose of doing justice both to the Government and to the individual.

"The members of our committees have insisted upon higher prices than the ones finally agreed upon, but they consented to those which were fixed because they were influenced by motives of patriotism and also because they were convinced that in the main the prices came within the original proclamation on the subject by the President which, from the standpoint of the Chief Executive of the nation, was reasonable."



The Evening Mail.

THE PURSUIT.

Federal Control of R. R. Issues

The Chamber of Commerce of the United States has issued the results of a referendum taken among its members and recommending by 95 per cent. of those voting, the following paragraphs:

That provision be made for federal regulation of the issuance of railroad securities.

That Congress pass a general railroad incorporation law, under which all railroad carriers subject to the jurisdiction of the Interstate Commerce Commission may organize.

That, if Congress passes such a law, all carriers now subject to the commission be given authority to regulate interstate rates when those rates affect interstate commerce.

Considerable emphasis will be placed by the railroads on the depreciation in their securities since the last petition for an advance was made and in the net losses of August and September, now known to have been heavy and with estimated heaviest decreases for October.

World Dollar Exchange Urged

Addressing 4,000 members of the Southern Commercial Congress, which recently held a three-day session in New York, John Clausen, president of the Crocker National Bank of San Francisco, said:

"A general demonetization of gold as a standard of value may be brought about by a combination of the European powers. A true perspective would seem to indicate keener and more tense economic rivalry among the world powers. This country is in need of a scientific development of its trading powers.

"International commerce is a matter of necessity and eminently conducive to our wealth

and prosperity. We must be prepared to meet aggressive European trade combination and keep pace with the world's industrial development. The phenomenal accumulation of gold in this country has been a source of concern to bankers and economists. If the war is prolonged the Bank of England might suspend specie payments, although if London is to remain the financial centre of the world it must supply gold when demanded."

National City Bank of N. Y.—The possibilities of railway electrification are especially interesting at this time, because they suggest a vast field open for construction work in this country and throughout the world, as soon as capital and labor can be had for it. There is naturally a feeling of uncertainty and apprehension as to industrial conditions after the war. The demand for war materials will fall off, the supply of labor on the market will be greatly increased, and it is a question whether all of this labor can be promptly placed in employment. It will be the most stupendous reorganization of industry ever known, and it is going to be a great social problem to accomplish this change without confusion, loss of confidence, and a period of stagnation. It is important that plans be laid on a large scale to take up the slack, and other countries are laying them. In this country, ready at hand, is the task of equipping the railroads, and other industries where practicable, to operate by electric power. The undertaking would involve an enormous amount of work and of many kinds. Hydro-electric plants would require in construction a great amount of labor, cement, steel, and heavy machinery. The demand for copper would take the place of the war demand for that metal, and keep the copper mines busy.

American National Bank of San Francisco.—In addition to taxing the profits of trade and industry, the Government seeks to limit these profits by fixing the price at which products may be sold. Thus far the commodities affected are steel, copper, coal and wheat. The ancient and revered law of supply and demand has been repealed and Government mandate substituted. The experiment will be watched with interest, and not without misgivings, on the part of the business public. Heretofore price-fixing as a Governmental function has been confined mainly to fields under monopolistic control, as in the case of railroads and other public utilities. The result is not reassuring, as the present plight of the railroads plainly shows. Profits are being crushed out between the upper and nether millstones of Fixed Return and Rising Costs, with the consequence that financing is difficult and improvements on a large scale next to impossible.

Knauth, Nachod & Kuhne.—So far as the stock market is concerned, the recent liquidation has strengthened its technical position. There has been heavy liquidation of real holdings, as well as immense selling by professional traders, who have conducted a good-sized bear campaign. Nearly all the financing reported of late has represented short term note issues. There has been a good market for the best offerings of this character. A few corporations have sold stock, but the experience has not been for the most part satisfactory. A movement has been started to secure government support for a loan of $500,000,000 to be used for the benefit of the railroads which find it difficult to borrow money through the usual channels. It is by no means certain that Congress would look with favor upon this proposal, but there are apparent grounds for believing that the Interstate Commerce Commission will see the wisdom of granting additional relief to the railroads that are being run just now for the benefit of the government.

Goodbody & Co.—Americans are good money-makers, fair money savers and extremely poor investors. Their investment education has been sadly neglected. The cautious investor puts his money in a savings bank or real estate mortgage. The incautious investor takes chances in all kinds of bonds and stocks—including a large proportion of the well-advertised mining and other fake stocks that flourish in boom periods. Only a comparatively few show the same care and judgment in making investments that they show in their businesses.

We hold that it is a man's duty before he parts from his hard-earned money, to study investments as carefully as he studies his own business. If he lacks faith in his own judgment, he should employ an expert in whom he and others have confidence. We hope the time will come when Americans will be as good investors as are the French or English.

Moore, Leonard & Lynch.—At the moment the market must be regarded as dangerous. There has been a lot of real liquidation and the public is in no frame of mind to purchase any large amount of stock. There is an over supply of securities and the remedy for this condition does not yet appear to be in sight. Values are exceptional in many securities, but it will probably be some time before the public can be brought to realize the bargains that are available. Investors will do well, however, not to overlook some of the opportunities now presented.

J. S. Bache & Co.—Speculative industrials with great surpluses already earned and good profits indicated (above excess-profits taxes) are not competed with by Government bonds and the prospect of large dividends, and extra dividends (which in many instances look unavoidable) will, we think, with the general all-around prosperity of an overflowing business throughout the country to provide surplus funds to the public, furnish the fuel for a much higher market in time. Especially when the country begins to feel the effect—and the inflation—produced by expenditure of the vast sums being raised by the Government on its credit.

RAILWAYS AND INDUSTRIALS

Analysis of Pacific Rails

II—Union Pacific, Southern Pacific and Atchison—Operating Results and Prospects—Comparison of Conditions on the Three Roads—Special Features of Southern Pacific

By G. C. SELDEN

IN the last issue I reviewed the Northern Group of Pacific Rails—Canadian, Great Northern, Northern Pacific and St. Paul—with special reference to the prospects for latter stock.

The three great Pacific systems to the southward exhibit wider differences in location, structure of capitalization, and traffic; yet there is enough similarity among them to make it advantageous to consider them together.

The Atchison is a railroad pure and simple. It has achieved its high investment standing by hauling its traffic efficiently, by conservatism in dividend distributions, and by building up its facilities to meet the growing demands of its excellent territory. It has a network of branch lines as feeders, in addition to its through lines to the Coast and to the Gulf.

Union Pacific has a much larger proportion of through business in comparison with its branch line traffic, and it is still a big holding company, even after distributing to its stockholders $42,000,000 of Baltimore & Ohio stocks and selling $88,000,000 of Southern Pacific.

Southern Pacific also is both a railroad and a holding company, but its holdings are entirely different in character from those of the Union Pacific. It controls electric traction companies, having a total of 440 miles of track; owns 13,000,000 acres of land; has a big investment in its Mexican line, which has so far done little business, and owns an interest or control in numerous industrial, oil and public utility companies.

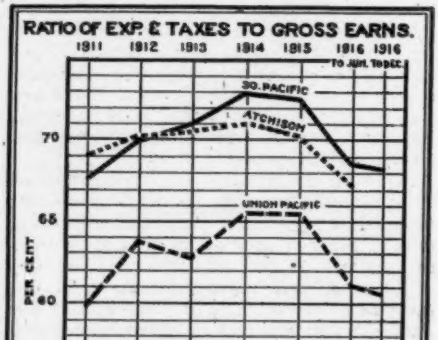
Earnings and Dividends

The table herewith shows the earnings and dividends of each of the three roads for a decade. Atchison and Southern Pacific have recently set new high records of earnings, but Union has not equalled its showing for 1909 and 1910. In the last five years Southern Pacific has made the greatest gain in earnings, Atchison has made a satisfactory gain, while Union has made but little gain.

Southern Pacific has paid out the smallest proportion of its earnings in dividends, as follows:

	Atch.	So. P.	U. P.
Avg. Earnings	9.85%	10.41%	15.86%
Avg. Dividends	6	6	9.8
% Earns. Paid Out	61	57½	62

(The Atchison average is for the eight years since the dividends were raised to 6 per cent. Union Pacific dividends include the 3 per cent extra cash in 1914, but not the B. & O. stock.)

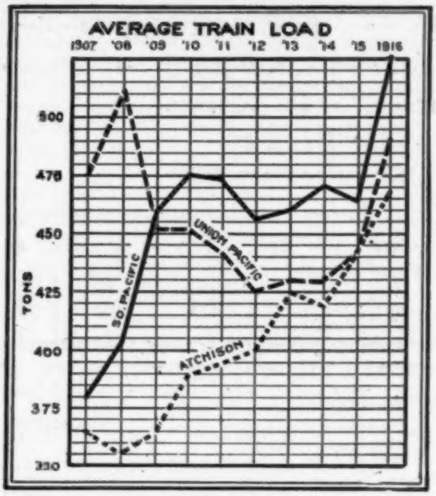


As to the "margin of safety" of earnings above current dividends, it will be noticed that Southern Pacific is again to the fore, since its dividends are being earned more than three times over, while Atchison in its last fiscal year earned the dividend two and one-half times, and Union is earning its regular eight per cent a little more than twice.

Atchison and Southern, then, are making good progress, but Union, although still in a strong position, is not forging ahead like the other two roads. Some of the reasons for

this will be shown by an examination of operating results.

Two other comparisons are of interest. The proportion of outstanding bonds to total cap-



italization is as follows: Atchison 47 per cent, Southern Pacific 43.8 per cent, Union 51 per cent. The smaller the proportion of bonds in the capital structure the more stable are the earnings on the stock. In this respect Southern Pacific stands first, Atchison second, and Union last.

An important element is the proportion of "manufactures, merchandise and miscellaneous" in a railroad's freight traffic—since those classifications bear much higher rates than others. Those classifications on the Atchison in 1916 represented about 22 per per cent of the total traffic, on the Southern Pacific 23 per cent, and on Union 20 per cent. Here also Southern and Atchison have a slight advantage over Union.

What Operating Results Show

The most important points to be observed in the detailed study of traffic statistics are:

First, the ratio of expenses and taxes to gross earnings. Taxes are not usually included in this ratio, but it is highly important that they should be, since the tendency of taxes is now so steadily upward. They are properly to be reckoned as a part of the road's expenses.

The importance of this ratio lies in the fact that it shows in the most convenient and condensed way how much of its traffic receipts the road is compelled to spend and how much it is able to carry forward for the benefit of security holders.

This ratio since 1911 is shown on the graphic herewith. Atchison has been the most successful in keeping down its proportion of expenses to gross, and is the only one of the three roads which is now in a better position in this respect than in 1911.

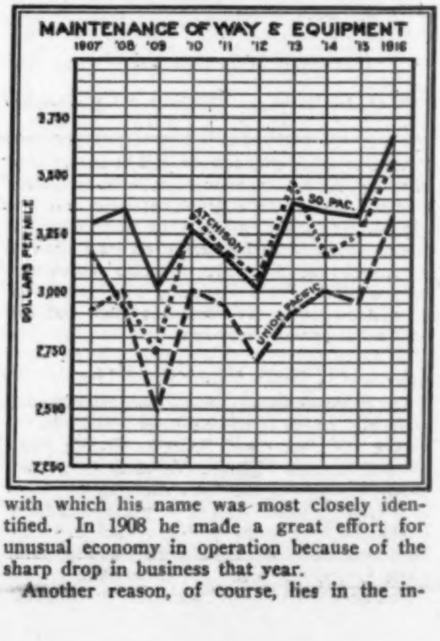
The fact that Union's ratio is constantly lower than the others is due to its different situation and traffic, especially to its preponderance of through business. The principal significance of this figure lies in its rise and fall, as showing the tendency of a road's ability to earn a profit.

Second, the average train load. This is important because almost the only way a railroad can haul goods at lower cost is by loading its cars more heavily and putting more cars into each train.

As seen from the graphic, Atchison's gain in this direction has been the most regular and consistent. Southern has gained even more, but with less regularity. Both have made a splendid showing.

The real surprise, to most investors, appears in the Union Pacific train load. Few have realized that this dropped 87 tons to the train, or one-sixth, from 1908 to 1912, and had recovered but slightly previous to the big war business of 1916. Even in 1916 it was still lower than in 1908.

The illness and death of E. H. Harriman in 1909 undoubtedly had something to do with this change. His dynamic force of character and intense driving power produced phenomenal operating results on the great property



with which his name was most closely identified. In 1908 he made a great effort for unusual economy in operation because of the sharp drop in business that year.

Another reason, of course, lies in the in-

creased restrictions enforced by new laws and in the regulations of labor unions.

But these reasons alone are not enough to explain the great contrast between the tendency of Union's train load from 1908 to 1912—and to a less extent since then—and the tendency of train loads on Atchison and Southern Pacific.

The principal reason is found hidden away in an item which might at first glance escape the investor's attention—"average haul per ton, in miles." It is worth while to examine this year by year:

1907	405	1912	381
1908	403	1913	381
1909	384	1914	360
1910	392	1915	357
1911	392	1916	415

This shows that there was a steady drop in Union Pacific's proportion of through traffic to other traffic from 1908 to 1915. Turning to "Gross revenues per mile operated," we see that Union's gross per mile *decreased* 15 per cent from 1908 to 1915 (both dull business years), while Atchison's *increased* 10 per cent and Southern Pacific's increased 3 per cent.

What became of Union's through traffic?

The answer is that two new through lines had been opened, one on each side of Union Pacific—St. Paul's Puget Sound Line in 1909, and Western Pacific in 1911. Atchison, also, has been busily building up its California business and has made inroads on the partial monopoly of through traffic which Union Pacific once enjoyed.

In 1916 Union's train load and average haul per ton "came back." There was more business than all the roads together could haul.

In these figures, then, we begin to see the reason why the earnings on U. P.'s stock have not kept up with those of Atchison and Southern.

THIRD, maintenance of way and equipment. The feature of this graphic is the steady rise in Atchison's application of funds to maintenance. The other two roads have been well maintained, but Atchison has been more than well maintained. It has been laying a foundation which will strengthen it against years of dull business, if that condition should have to be met.

Union as a Holding Company

Back in 1912 Union Pacific's "Other Income"—nearly all from interest and dividends on securities owned—was almost two-thirds as much as its operating income. In 1916 (calendar year) this proportion had been cut down to 30 per cent; but on Dec. 31 last the company still owned $265,000,000 par value of stocks and bonds of other companies, of which only $62,000,000 was pledged behind any of its own securities, leaving $203,000,000 unpledged and free of claims.

In 1916 the income from these securities was over $11,000,000, or about 5 per cent on U. P.'s common stock. Its largest holdings of stocks are $10,000,000 Chicago & Alton, preferred; $22,500,000 Illinois Central, and $20,000,000 New York Central. Alton preferred discontinued dividends in 1911. The other two have paid dividends regularly, with some variation in rates.

This extensive ownership of stocks of other companies has the effect of making Union Pacific's speculative fluctuations wider than those of Atchison or Southern Pacific.

TEN YEARS' EARNINGS AND DIVIDENDS

(Fiscal Years Ending June 30)

	Atchison Common		Southern Pacific		Union Pacific	
	Earned	Paid	Earned	Paid	Earned	Paid
1908	7.74%	5½%	7.40%	6%	16.23%	10%
1909	12.10	5	10.60	6	18.87	10
1910	8.89	6	12.30	6	19.16	10
1911	9.30	6	9.56	6	16.61	10
1912	8.19	6	7.92	6	13.88	10
1913	8.62	6	9.85	6	15.14	10
1914	7.39	6	7.50	6	13.10	*9
1915	9.18	6	7.20	6	10.98	8
1916	12.30	6	10.98	6	15.65	8
†1916	....	.	12.98	6	17.63	8
1917	15.00	6	‡18.81	6	‡17.02	10

*Also extras of $3 cash and $12 and $22.50 respectively in B. & O. pref. and com. stocks at par.

†Calendar year. ‡Estimated for calendar year.

Southern Pacific's Oil Lands

The United States Government is suing Southern Pacific to recover about 460,000 acres of oil lands, estimated to be worth from $500,000,000 to $1,000,000,000. The claim is that the lands were fraudulently obtained, and that the railroad company fraudulently concealed the true situation from the Government until after the six years' statute of limitations had expired.

Most lawyers believe that the Government will be unable to prove these fraudulent acts on the part of the railroad, and that the road's ownership of the lands will therefore remain undisturbed.

Southern Pacific has outstanding 2,728,234 shares of common stock. If the lands are worth $500,000,000, the company has at stake in this suit assets equal to about $183 per share on the stock. Therefore, if the suit is won by the company, it is highly probable that the price of the stock will rise in response to the removal of this uncertainty.

Recent Earnings and Outlook

The story of railroad earnings now is the same as for several years past—increasing costs are gradually overtaking the gross earnings. The result is that, in spite of record-breaking gross business, and in spite of the economies instituted by the Government's War Board, net earnings are, generally speaking, declining in the East and merely holding their own in the South and West. The Interstate Commerce Commission has recognized these conditions by permitting the Eastern roads to apply once more for higher rates.

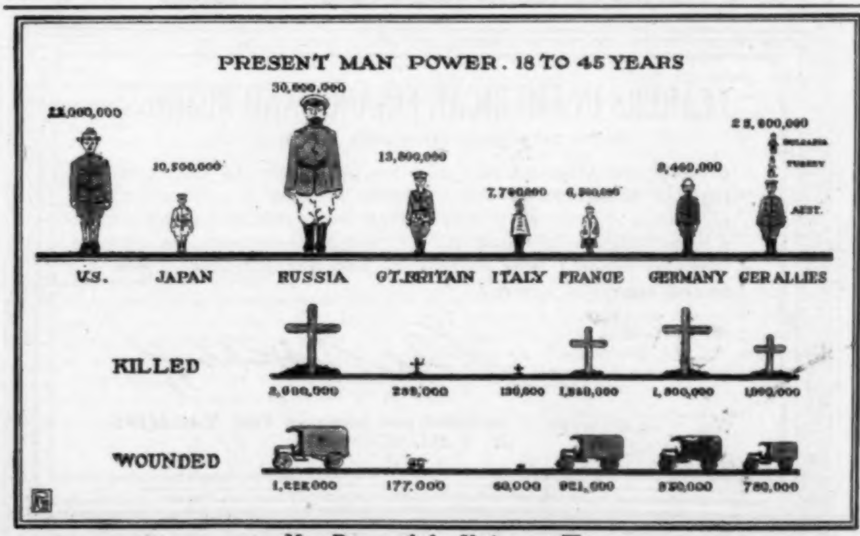
The Government has now assumed such a large share of responsibility for the railroads, their contribution to the winning of the war is so important, and the justice of permitting them to raise their rates along with the rise in all other prices is so evident that it is hard to see how their application can be refused.

The latest earnings of these three roads may be summarized as follows: Atchison's gross is increasing heavily over last year and its net is just about holding its own with last year. Southern Pacific's increase in net has so far kept pace with its large increase in gross—a wonderful showing under the conditions. Union's gross is well ahead of last year, but its net is running below last year.

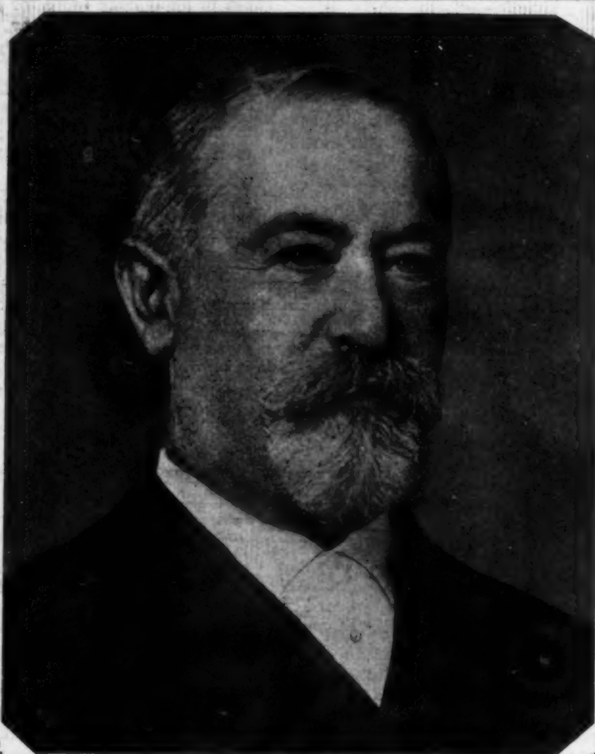
As matters stand now, the outlook for Southern Pacific is especially good. It is a sound investment stock, with excellent possibilities for higher prices.

Atchison is one of the best managed roads in the country. Its earnings would stand up well under adverse conditions, and its price may be expected to respond to the general investment situation. Fluctuations are likely to be relatively narrow, compared with more speculative stocks.

Union Pacific is well able to maintain its regular 8 per cent dividend under any conditions which seem likely to arise and at the present price affords an exceptionally high yield on the investment. It has passed its period of most rapid growth.



Man Power of the Nations at War



Looking Backward—and Forward

A SOUND idea must underlie every business enterprise if it is to endure.

When I began to plan the first issue of this magazine, I searched for such an idea and found it in the remark made years before by an old Yankee merchant of a small town in Connecticut: "Young man, if you want people to do business with you, make it to *their* advantage."

Here was my keynote! I was about to attempt the precarious business of publishing a magazine which was to sell at twenty-five cents the issue, or three dollars per year. For that quarter or that three dollars I must give the reader *more* than his money's worth or he wouldn't continue to buy. How could I give him a big return on his investment?

During the nearly twenty years that I had up to then spent in the financial district, I had seen thousands of investors and traders come and go, the disappointment in their faces emphasizing again and again the need for chart and compass with which a course might safely be steered through the inviting but difficult waters of Wall Street.

And so I determined that the new-born messenger should gather and transmit facts, figures, methods and suggestions whereby men could more safely and profitably invest and operate in this field.

It is for our readers to testify whether we have benefited them—whether the magazine has really made good. Permit us therefore to submit two letters recently received from subscribers. One is from a small investor—a woman. It will be found on page 22a of the advertising section.

The other letter is from one of the greatest financiers in these United States; whose name is known round the world—Jacob H. Schiff. It is reproduced on the opposite page. Between these two types are all classes of people who bring their money to what is now the world's financial center. If we have benefited the great and the small, it is fair to say we have aided those in between.

Our first ten years have been spent in testing the idea, and the idea has proven sound. The next ten will be devoted to the full development of the idea, and to this end we shall build a publication which will far outstrip that of today, measured in "value to the subscriber." Contact with our readers has given us a clear understanding of their requirements.

We found that the majority of them began with a wrong conception of Wall Street. They thought it was a "gambling place"—a place to "get rich quick." We believe we have proven what a highly specialized business investing and trading is—how much more intricate than law or medicine. That to succeed one must learn this business; that instead of buying first and investigating afterwards, one should analyze the security first and then decide whether to buy; that before one begins to invest or operate, he should learn to define an Investment for Income Only; Investing for Profit; Semi-Investments; Speculation, and Gambling; that, finally, the law of supply and demand furnishes the soundest basis for judging the future course of securities.

The truth about these and other principles we have endeavored to make plain and we have the satisfaction of knowing that our friends have derived inestimable good therefrom.

But do not for a moment entertain the idea that we of the editorial staff have done this by ourselves. Far from it. We have been merely the collecting and the distributing agency for our now great circle of readers. They have told us what they required; we have written it or directed that it be written. In thus meeting these demands, we have acquired a broader view, greater precision and larger capacity to be of service.

May we express to you, subscribers, our gratitude for your co-operation?

Richard D. Wyckoff

RICHARD D. WYCKOFF, Founder and Editor, is descended from an old New York Dutch family. His grandfather was one of the founders of the Hanover National Bank and the Hanover Fire Insurance Co. Began twenty-nine years financial experience at bottom of the Wall Street ladder. Was partner in three brokerage firms before retiring from brokerage business. In 1907 associated with late James R. Keene in syndicate work. In that year he established The Magazine of Wall Street. Profound student of values and price movements and has lectured and written extensively on both subjects. His book "Studies in Tape Reading" is the only one of its kind published.

G. C. SELDEN, Associate Editor.—Has been Schiff Fellow at Columbia; editor and statistician in U. S. Census Bureau; held official positions in corporations and a R. R. traffic association; author of several financial books; lecturer at Finance Forum; a keen student of values and nationally known as an authority on banking, economic and investment conditions.

BARNARD POWERS, Managing Editor, is a Harvard graduate. Began his career as a reporter on the New York Herald, followed by six years of financial study and writing as a member of the staff of The Wall Street Journal. Came to The Magazine of Wall Street as head of its Inquiry Department and was appointed Managing Editor in 1915. Has specialized in first-hand investigations of railroad and industrial corporations. His security analyses, and interviews with leaders of finance and business have attracted widespread attention.

The Magazine of Wall Street from Its Start

By G. C. SELDEN, who joined our staff in 1909

IN the fall of 1907 Richard D. Wyckoff came to the conclusion that the public needed and would appreciate an entirely different brand of investment education, information and advice from that which was then available; that they would welcome the HOW, WHY, WHAT and WHEN of investments.

The idea was born in the Panic of November, 1907, and the publication was known as "The Ticker," a monthly magazine for investors. We do not claim that this issue checked the money panic, but as a matter of fact the panic did come to an end just at that time and an improving market set in.

"The Ticker" had a number of subscribers. We don't remember the exact number but it was more than 23. Mr. Wyckoff's idea was welcomed cordially, enthusiastically, almost hilariously by a small subscription list—many of whom are still with us now that we have grown up. To these old friends we extend the handshake of good fellowship. As for the big, sluggish investment public, it was certainly one long, hard, costly job to wake them up.

From the first, it was clear to us that the Demand was there. The only question was how to reach it. There was a Demand for investment education; for clear explanations of Stock Exchange methods, the money market, scientific methods of investing and trading, the causes of price fluctuations; for keen, unprejudiced analyses of investment values (which are harder to get than the reader might suppose); for a sound interpretation of current conditions; for conscientious help and advice in building up a safe income; for direct opinions as to what securities should be bought or sold, and when; and for clear, explicit information on a thousand and one other angles of the investment situation.

Well, the baby publication suffered all the diseases of childhood, but in spite of them all it grew and waxed fatter and fatter. It got so fat that we had to make twins of it—one every two weeks.

Our field broadened out until the original name no longer covered it, and we changed the name to The Magazine of Wall Street. We established the Trend Letter, which is now in its seventh year and has grown steadily, hand in hand with the magazine. We published a list of financial books which have been read and re-read by thousands of investors. Bound volumes of our early years became scarce and eagerly sought and now command a big premium when they can be found.

The modest "Inquiry Department" with which we started developed into the Special Analytical Service Bureau, upon which many investors now depend in placing their capital. The latest addition to the family is the "Investment Letter," issued by the Analytical Service Bureau and commanding the assistance and knowledge of our entire staff.

If you ask us why we have become the leading publication in our field, we can tell you: It is because Richard D. Wyckoff's spirit of sincerity, impulsive straightforwardness and indefatigable industry has always permeated our entire enterprise. We have made mistakes—plenty of them—but we have always given subscribers our best. Naturally, we feel a satisfaction in having accomplished something which has so greatly benefited a wide circle of readers, and we are looking forward to still greater progress in the next decade.

ROBERT L. SMITLEY, Business Manager of The Magazine of Wall Street, after graduating from Yale University, gained very valuable experience with a well known bond house. Later he served as cashier of one of the largest wire houses in Wall Street, handling millions in loans. He was for three years an active member of the New York Stock Exchange, selling his seat in 1910. His wide experience has taught him the needs of the investor and trader.

ELMER NEWTON
ADVERTISING DEP'T

Mrs. FLORENCE M. MADDEN
LIBRARIAN

EDGAR P. HILDRETH
CIRCULATION MANAGER.

The Future of The Magazine of Wall Street

By ROBERT L. SMITLEY

WHEN the foundation of a building is complete, it is not difficult for the architect to forecast the building in its finished state. We have been ten years perfecting the foundation of The Magazine of Wall Street and, as the architects, we can visualize its future. Our plans and purposes are clearly outlined. When hard, intelligent wholesome effort is put into any constructive work, the result is bound to be satisfactory.

No business can become established without its quota of mistakes. The test of an organization is its ability to prevent the same mistake from occurring a second time. We have fought shy of fads and we have tabooed the muckraking evil. The letters from our readers have been our greatest help. By telling us their needs we are able to supply what is required for their profit and the safeguarding of their investments.

Co-operation is the keynote of this success—the co-operation of our subscribers and of our advertisers. Our subscribers are the substantial thinking class of the United States. When men like Jacob H. Schiff, of Kuhn, Loeb & Co., Stephen Birch of Kennecott Copper, Ivy L. Lee of John D. Rockefeller's advisory staff and S. R. Guggenheim of the American Smelting and Refining Co. tell us that we are doing a work which is worth while, we know that we have chosen the right path.

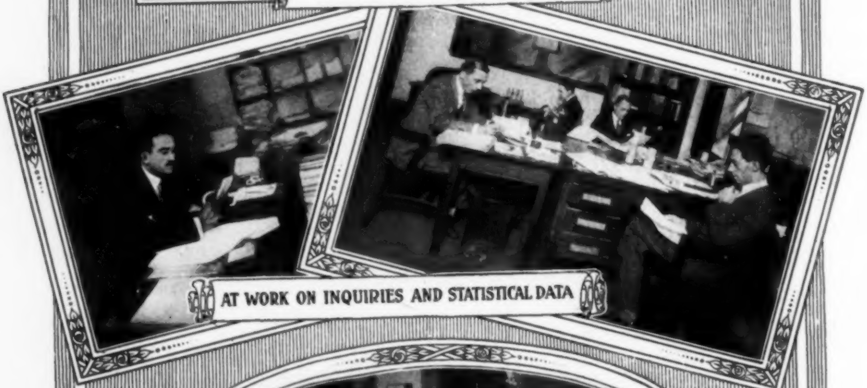
Here are a few of our plans—now outlined and in course of preparation:

- A personal investigation of every important corporation by our own representative.
- An Investment Service which will guide the business man and help him conserve his surplus and increase his income.
- Elementary educational articles on finance and investment which will be clear, concise and easily understood by anyone.
- A strong, positive, unprejudiced editorial policy in sympathy with American ideals.
- A symposium of views and experiences of the Leaders of Finance and Industry which will be invaluable to our readers.
- A "Round Table" department which will call upon all our friends for their ideas and a summary of their difficulties—a new and profitable perspective—through which subscribers will help each other.
- A continuous, up-to-date review of the more important industries which will help the business man to look ahead and provide for his future.
- A department for women which will educate women who handle their own business affairs—or may some time need to—so that they will not be at the mercy of financial ghouls or well-meaning but ignorant friends.
- Concrete investment examples for all classes of people—what is best for the widow, the professional man, the business man, the clerk, the laborer, or the retired merchant.

In these and many more efforts, we ask for the able and valuable assistance of our friends. Wholesome, constructive criticism is especially appreciated; for it is only through such co-operation that we can learn individual needs.

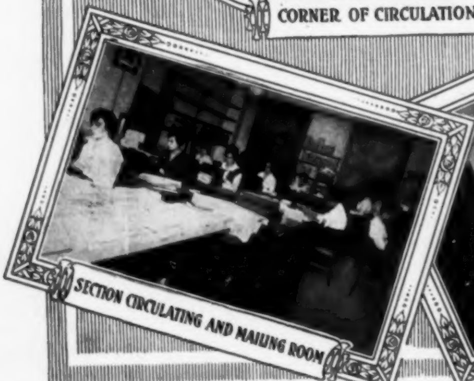
Every month and every year will bring forth new features for the subscriber. We aim to make every future issue editorially and mechanically better. There is no limit to the possibilities for improvement and it will be you, the readers of The Magazine of Wall Street, who will, by your criticism and suggestions, help us to build a bigger, broader and better publication.

STUDYING MARKET CONDITIONS

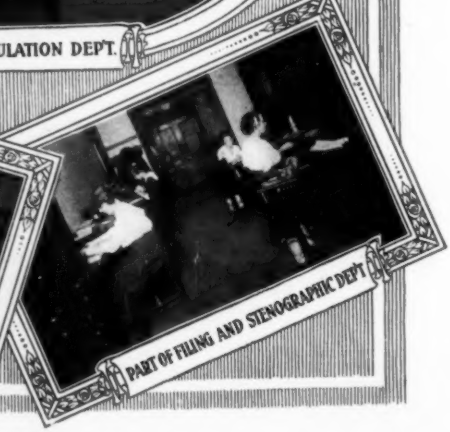


AT WORK ON INQUIRIES AND STATISTICAL DATA

CORNER OF CIRCULATION DEP'T.



SECTION CIRCULATING AND MAILING ROOM



PART OF FILING AND STENOGRAPHIC DEP'T

The Analytical Service Bureau

Personal Service Inquiry Department. **Trend Service and Investment Letter.**

Department for Women Investors.

INVESTORS and Traders have learned that the Business of Investment is as highly specialized as any other, and as intricate as the profession of engineering, medicine or law. The Magazine of Wall Street appreciated this fact years ago, realizing that investors needed the assistance of trained experts in all fields of financial endeavor. It was difficult to find those qualified and to train them to meet the special requirements of our subscribers. The services of The Magazine of Wall Street's statistical staff are now in demand by those interested in investing, trading, economics and finance.

The men who head our various departments aim to get the viewpoint of the subscriber, to consider his individual case, and the thousands of inquiries, analytical reports, investment ratings and market advices called for by our subscribers, are prepared by men who have made good in theory, practice and actual results.

Laurence R. Beech, formerly with the Wall Street Journal, supervises the work of the Analytical Service Bureau. He has spent many years in the study of finance and investment, is a keen analyst and a thorough investigator of earning power and intrinsic values.

Developments in the bond market, recommendations of bonds for investors and studies on equities, yields and marketability are supervised by Mr. George C. Selden, who is assisted by Mr. Beech and Robert L. Smitley. Our statistical files on this most important investment field are exceptionally complete and are being continually augmented and kept up to date.

Thos. L. SexSmith studies technical market conditions and his articles are highly regarded. Mr. SexSmith's previous experience fitted him for this particular work and in direct association with Mr. Wyckoff he has rapidly developed into a diagnostician of market conditions. The basic principle of supply and demand is the subject upon which he specializes.

Victor de Villiers received a very thorough and comprehensive training in financial, political and social economics in Paris and London. He has since been associated with the financial department of leading American and foreign publications, such as Figaro, Le Matin, New York American, etc. He has made a specialty of curb and unlisted securities. His financial and analytical experience is of great value to our subscribers.

James G. Donley, Jr., after leaving Leland Stanford University entered the field of financial journalism and has acquired a broad financial and investment experience. One of his notable successes was the Wall Street Feature column of the New York Globe. Formerly he was assistant Financial Editor on the New York American. The development of the individual viewpoint in adapting investment advice to the needs of each person is the field to which he has devoted the most thorough study.

Our Department for Women Subscribers recently inaugurated is under the direct supervision of our Analytical Service Bureau.

Mrs. Florence Marshall Madden, who has had broad experience in editorial and executive capacities, assists in this department. She also supervises our Investment Library and Book Department. Her training qualifies her to understand the needs of the woman who manages her own business affairs.

Has The Magazine of Wall Street Been of Value to Its Subscribers?

Vice Pres.—National City Bank of N. Y.

Your magazine seems to be developing along right lines. Your articles are well written and timely, and the magazine should prove valuable to men interested in financial and commercial matters.

Pres.—Miami Copper.

I am a reader of your magazine and consider it a very good publication, ably and conservatively edited. I wish it continued success.

Vice-Pres. Drovers Nat. Bank of Chicago.

For investors or anyone interested in the security market I consider The Magazine of Wall Street one of the best financial publications in the country.

Philadelphia Stock Exchange Member.

The Magazine of Wall Street is a great source of satisfaction to my office.

Vice-Pres. Interborough R. T.

The Magazine of Wall Street regularly comes to my desk. I find in its pages much of valuable interest that is concisely stated. I congratulate you upon reaching your Decennial Anniversary and wish for the publication continued prosperity and success.

Editor "Personal Efficiency."

The Magazine of Wall Street is a well-edited, well-informed and well planned publication. It is doing excellent educational service and for a very moderate fee.

Citizens State Savings Bank, Otsego, Mich.

I have been a reader of your Magazine for some time and can say that I get more benefit from it than any financial Magazine published, and have found by following its advice I always get results. I would not be without it in my business.

Well Known Investment Firm.

Permit us to congratulate you on the growth and success of The Magazine of Wall Street—certainly one of the most interesting financial publications in the country.

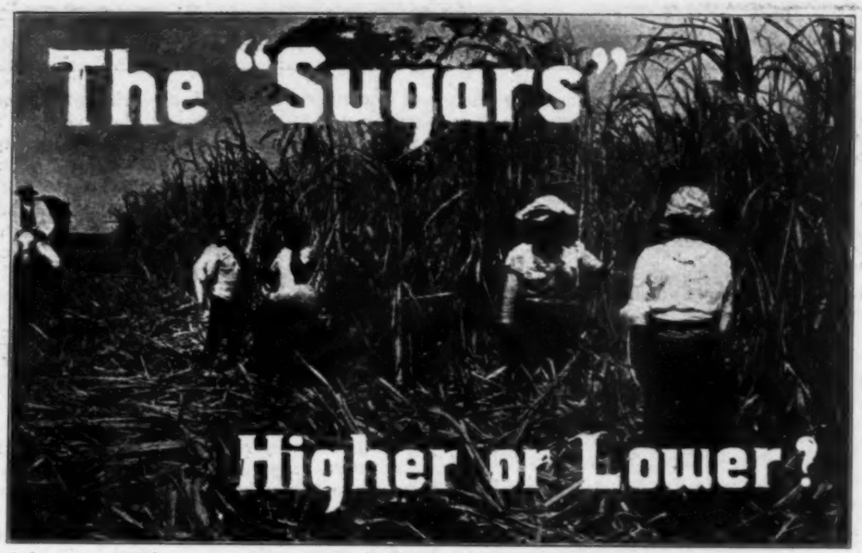
H. M. BYLLESBY & COMPANY
By
Publicity Mgr.

College Professor.

I have found your publication extremely valuable in keeping up with current information both of the markets and corporations. I have noted since the existence of this publication, the accuracy with which its market comments are usually made. I know of no better statement to make than to say that I am a regular reader of your publication.

Walter E. Lagerquist

(Continued on page 10a of the advertising section.)



Cutting the Cane in a Cuban Sugar Field

By JAMES V. TERHUNE

IF the housewife or investor finds the present inflated prices for refined sugar a puzzle, let them glance at the following tabulation, which shows the extraordinary increase in exports from this country during the war years:

Year	Pounds	Value
1913	43,994,761	$1,681,302
1914	50,895,726	1,839,983
1915	549,007,411	25,615,016
1916	1,630,150,863	79,390,147
1917	1,248,840,000	77,091,000

These figures show that, compared with 1913, the amount of sugar exported for 1917 increased twelve hundred million pounds, or approximately 2900 per cent. Cut off from the products of the beet sugar fields of Germany, France and Belgium, the world has come clamoring to America to assuage its sweet tooth. What wonder then that the price of sugar boomed skyward and that sugar stocks followed or rather led the way? It is of interest to note where all the sugar has gone and the following table throws considerable light on the point:

Country	Exports from U. S. A. 1913 Pounds	1917 Pounds
Belgium	46,000	36,600,000
France	......	452,500,000
England	515,000	90,700,000
Italy	2,000	48,700,000
Switzerland	.....	28,000,000
Norway	5,000	122,400,000
Netherlands	......	10,100,000
Greece	......	32,900,000
Spain	187,000	76,400,000
Argentina	33,000	97,500,000
Uruguay	......	48,750,000

With this tremendously increased world-wide demand, small wonder that the sugar companies have enjoyed a harvest time of profits such as has never been seen before and may never be seen again. Has the golden period of big sugar profits passed or may the sugar companies look forward to greater or even as great earnings as they have enjoyed in the last two years? If the United States were not at war, it might be possible to answer in the affirmative, but under the new conditions of price fixing and war taxes, it is obvious that the sugar situation now has assumed an entirely different aspect from a year ago.

American Sugar Refining

American Sugar Refining, or the "Sugar Trust" as it is colloquially known, has had to stand its share of abuse for the sugar shortage although it was brought about by circumstances over which the company had no control—namely, inability to obtain sufficient tonnage to ship raw sugar from Cuba.

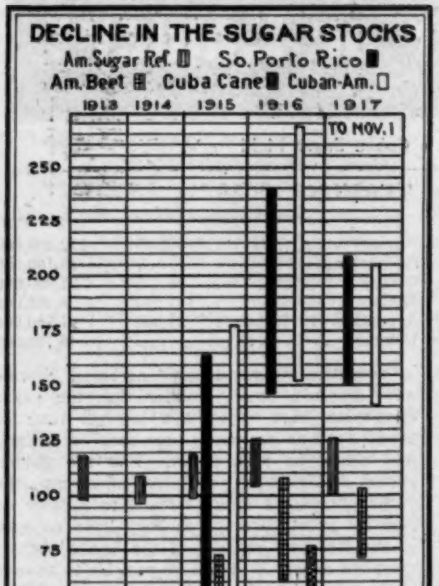
In commenting on the purchase of 100,000 tons of Louisiana sugars for delivery in November and December, President Babst stated:

"In explanation of our anxiety to make such a large purchase, I desire it to be understood that four out of our six refineries are closed

by reason of lack of raw sugar—the refinery at New Orleans, at Brooklyn and two at Philadelphia. Today the refineries at the Warner, Arbuckle, Federal and Savannah sugar refining companies are closed. I know that, with the exception of the four refineries that have Hawaiian raws, all the remaining refineries are about to be closed."

Truly a serious situation and one which hardly makes for optimism in regard to the stocks of the sugar companies.

Notwithstanding that the outlook for the immediate future is clouded, it seems probable that the current year as a whole will be one of the best the company has ever had. American Sugar refines approximately 35 per cent. of the sugar turned out in the United States, which gives the company a position of dominance in the sugar-refining industry. It sets the price for sugar in somewhat the same way that the U. S. Steel Corporation sets steel prices and the American Smelting & Refining the price of lead. Up to June 1 of the current year, the company's earnings were running at the rate of approximately $35 per share on the common stock.



Government fixing of the price of refined sugar at 7¼ cents per pound, however, put a new aspect on affairs. As one sugar authority states, this price fixing puts the cane sugar refiner in the position of being one of the most protected and at the same time in the least profitable lines of industrial businesses. Earnings for the current year are expected to cover present dividend requirements with an ample margin, but the company's stock is discounting next year's earnings.

According to the same authority, about one-third of this year's profits will come from actual operations of refineries and approximately two-thirds from profits in raw sugar speculation. It was the genius possessed by the late Henry Havemeyer along the line of speculation in raw sugar which made the old "sugar trust" so successful, and it appears that the management has taken a leaf from the Havemeyer book. Next year, however, the speculative profits, unless the war ends, will be absent. Under the regulations of the food control authorities, speculation in raw sugars has gone out of style for the time being.

American Sugar Refining took part in the recent down-shoot of security prices—which, by the way, the ignorant attribute to such things as short selling, etc., while the informed know that it was occasioned by the readjustment in values due to new conditions which are now having their effect—and at 95 per share yields approximately 7.3 per cent. The preferred at 110 yields about 6.3 per cent., and while in ordinary times in view of its very considerable margin of safety (see table herewith) it would be on an attractive basis, it cannot be considered so now. There are plenty of securities with an equal degree of safety which afford higher yields.

The common stock has not sold as low as 97 since 1902, when it touched 92¾. While the common dividend appears safe enough, there is so much uncertainty in regard to the general outlook that the careful investor would do well to await until matters clear a bit even if he had to pay several points higher for his stock in the end.

American Beet Sugar

Paying at the rate of 8 per cent., which has been declared ahead up to the first quarter of next year, and with a 12 per cent. extra on record paid early in the year, the common stock of the American Beet Sugar Co., selling at between 70 and 75, presents somewhat of an anomaly. It merely substantiates, however, the opinion expressed earlier in this article to the effect that the sugar stocks are selling on long range prospects rather than near-at-hand developments.

It would appear that the American Beet Sugar Co. would make a very handsome showing for the current fiscal year which ends March 31, 1918. But there was a "joker" in the Government's fixed price of 7¼ cents a pound which did not immediately appear when the price was announced. At first sight the beet sugar people took the price to mean 7¼ cents net to them, overlooking the provision "landed at Atlantic seaboard." It now appears that what selling the beet sugar interests do in Western territory—and that is where the beet sugar markets are—must be at the fixed price less the freight differentials. In effect that means a reduction of the fixed price to about 7 cents a pound, and even as low as 6.90 cents in some instances.

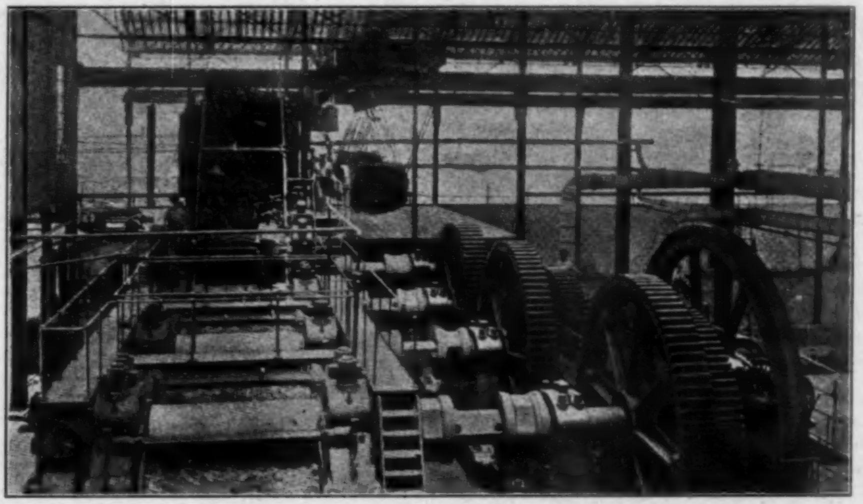
In its last annual statement the company went into its production costs in detail. They were shown to be 4.05 cents a pound, and it is figured that for the current year because of higher prices paid for beets, larger wages and generally increased operating expenses that costs will be at least ¼ cent a pound higher.

On the basis of 7 cents a pound net, American Beet Sugar would stand to make a profit of somewhere between $30 and $35 per share on its common stock, figuring earnings after the preferred dividends and without allowing anything for depreciation and excess profits taxes. On the lower fixed price basis and after the necessary deductions the balance for the common will be considerably less, though still enough to earn the present 8 per cent. rate with a substantial margin.

Cuba Cane Sugar

The annual report of the Cuba Cane Sugar Co., which will be out in the very near future, is expected to show in the neighborhood of $12 a share earned on the common stock, according to informed quarters, as contrasted with $18 a share for the previous fiscal year ended September 30. The report will show that the company sold about 3,260,000 bags of sugar last year at prices ranging from about 3.3 cents to 6 cents per pound, with average prices f. o. b. Cuba estimated as approximately 4.25 cents to 4.40 cents per pound. Next year's production is estimated at 4,000,000 bags. Dividend requirements on the preferred stock call for $3,500,000 yearly and a profit of .27 cents per pound is all that is needed on the basis of present production, to insure the earning of the preferred dividends.

The falling off in earnings for the common stock as compared with last year is attributed to higher operating costs to which the West Indian sugar companies have been subjected. Higher wages was one of the chief factors.



Giant Mills Extracting Juice from the Sugar Cane

South Porto Rico Sugar

This company is in the same boat with Cuba Cane as far as increased operating expenses are concerned. Gross receipts for the year ended Sept. 30 last were $10,690,741 as compared with $8,396,562 for the previous year while expenses and taxes in the last reported year increased from the $4,709,362 shown in 1915-16 to $8,072,783, thereby causing a decline in net from $2,505,957 to $1,251,290. This jump in costs is equivalent to an advance in excess of 71%.

The effects of this increase in costs appears strikingly in the amount earned on the common stock of the company. After preferred dividends and charges for reserves the balance on the common stood at $20.71 per share, as compared with $60.65 on the common for the previous year.

This does not leave a safe margin on the present common dividend rate of 20%. Perhaps that is one reason why the common stock, in which there is not a great deal of market activity, has such a wide bid and asked price (at this writing 148 bid and 160 asked) and why at 150 it makes the high yield of more than 13%. It remains to be seen whether the 20% dividend rate can be maintained but in any event the issue at the present time would appear to occupy a highly speculative position.

Sugar Stocks

While the earnings of the last two years have placed the sugar stocks in an intrinsically stronger position, the investor must not lose sight of the fact that the present market is one which takes little account of "values." It is wholly a question of supply and demand for the moment at least and stocks are in greater supply than demand. No one knows what Governmental step may be taken next to further reduce earnings and consequently values.

Looking at the sugar stocks from a strictly technical angle one perceives that they have undergone a long period of distribution. If historical precedent counts for anything, it teaches that nine time out of ten such periods are followed by declines, the severity of which is gauged by the volume of distribution in the distribution period. It would therefore appear that the sugar stocks do not offer attractive investment or speculative prospects at this writing.

IMPORTANT STATISTICS OF LEADING SUGAR PRODUCING COMPANIES

(as of December 31, last)

	Outstanding Capitalization Pfd.	Outstanding Capitalization Com.	Bonded Debt	Working Cap.	Cash	Av. Earned on Pfd.	Av. Earned on Com.	Total Surplus
Am. Sug. Ref.	$45,000,000	$45,000,000	....	$40,355,501	$22,717,454	§15.25%	§8.25%	$18,348,712
*Am. Bt. Sug.	5,000,000	15,000,000	....	6,579,779	4,835,351	§34.30	§9.09	1,254,747
†Cuba C. Sug.	50,000,000	‡50,000,000	....	4,717,541	1,527,723	¶21.68	¶14.68	9,851,507
Cub.-Am. Sug.	7,893,800	9,989,840	8,307,000	9,516,560	5,772,129	‖35.04	‖30.53	9,559,055
So. P. R. Sug.	3,948,000	4,500,000	....	4,561,635	1,933,914	°35.3	°26.9	808,882

* Year ended March 31, 1917.
† Year ended September 30.
‡ No par.
§ Ten year average.
¶ Two year average (1917 estimated).
‖ Eight year average.
° Seven year average.

SUGGESTIONS IN REGARD TO INQUIRIES

The very heavy volume of inquiries which this publication is now receiving makes it necessary to ask our subscribers to co-operate with us in order that we may maintain and improve the high quality of service which the Investors' Personal Service Department renders to our readers. We therefore suggest that:

(1) Not more than two or three inquiries be submitted at one time. Occasionally a subscriber sends in a long list of securities asking for an opinion on each. The careful manner in which the Investors' Personal Service Department handles its inquiries makes it impossible to give such inquiries the immediate attention necessary, without slighting other inquirers.

(2) Write all inquiries on a *separate* sheet of paper, which should bear the writer's name and address.

(3) Enclose stamp or stamped and addressed envelope.

The above suggestions are drawn up for the benefit and protection of our readers and those inquiries which conform with them will receive first attention.

When a reader wishes a special investigation or a special analysis of a security or a subject we shall be pleased to submit an estimate of the special charge for such work.

Industrial Earnings, Dividends and Income Yields

In view of the wide discrepancy between present industrial earnings and last year's—chiefly because of the unsettled conditions resulting from the war—our usual "Bargain Indicator" has been modified as below. The *dividend rate* given covers regular declared dividends on the yearly basis. Extra or stock dividends are noted from time to time in the comment column on the right, which also summarizes important price-affecting factors. The *yield on price* is based on regular dividends and the last reported sale or bid price before going to press. A minus sign before the earnings' columns indicates a deficit for the year in dollars per share.

INTENDING PURCHASERS should make careful Comparisons, including former years. They should also read the "Investment Digest" for additional information. If a yearly subscriber, our Inquiry Department may be consulted.

Companies Which Have Reported in 1917.

	Dollars Earned Per Share.						Present Div. Rate	Recent Price	Yield on Price	
	1912	1913	1914	1915	1916	1917				
Amer. Agricultural Chem. com.	7.34	5.23	7.68	10.97	20.57	21.11	6	79	7.59	Outlook encouraging, a semi-peace stock.
Amer. Beet Sugar com.......	8.46	3.88	1.01	7.50	14.30	30.55	8	73	10.95	Recent Government price insures reasonable profit.
Amer. Car & Foundry com....	.....	2.46	4.09	5.52	0.76	27.37	4	63⅝	6.29	Large Gov't contracts for box and tank cars. Extra div.
Amer. Hide & Leather pfd.....	3.22	3.66	0.83	7.38	12.64	13.60	5	61	8.19	Latest earnings favorable.
Amer. Loco. com.............	0.47	17.74	1.30	13.00	36.08	21.80	5	55	9.09	Profits affected by high operating costs. Prospective heavy European orders after war.
Burns Bros. com.............	.....	4.41	8.40	12.11	10.03	21.27	6	105	5.71	Business continues very profitable.
Col. Fuel & Iron com.........	3.93	3.21	3.11	1.44	5.97	23.80	3	35½	8.45	
Inter. Nickel com.............	5.89	4.35	2.80	3.33	6.83	7.78	6	26	23.07	Canadian and U. S. taxation hurtful.
Maxwell Motor com...........	.....	.....	0.30	6.55	30.18	30.72	0	29	0.00	Competition and war economies hurt.
Nat. Biscuit com.............	10.00	9.61	11.75	9.52	8.19	9.72	7	91	7.69	Peace should prove advantageous.
Pullman Co.	8.69	9.29	9.04	8.79	10.32	11.36	8	132	6.06	Increased expenses reduce margin over dividend.
Va.-Carolina Chem. com......	3.28	0.53	3.39	7.55	10.39	10.92	3	30	10.00	A semi-peace stock.
Westinghouse Elec. com......	3.08	4.10	5.35	2.36	10.21	12.56	3½	41¼	8.48	May need to do new financing.

Companies Which Have Not Reported in 1917.

	1912	1913	1914	1915	1916	1917	Present Div. Rate	Recent Price	Yield on Price	
Allis Chalmers pfd...........	.....	4.77	—0.15	6.80	19.97	.....	7	72	9.72	Plants running at capacity. Expects to clean up back dividend.
Amer. Can pfd...............	15.86	9.66	10.61	12.19	19.31	.....	7	96	7.29	Government business helps. Back dividends due.
Amer. Cotton Oil com.........	6.49	3.38	1.99	7.05	6.99	.....	4	29	13.78	High prices for cotton seed detrimental.
Amer. Linseed pfd...........	—2.85	2.96	1.83	6.02	8.82	.....	3	58⅝	5.12	Earnings believed to be very large.
Amer. Smelt. & Ref. com.....	11.47	7.47	6.51	16.80	29.75	.....	6	81	7.40	Fortified with large cash reserves.
Amer. Steel Foundries........	4.52	4.53	—1.35	—1.20	19.89	.....	7	57	12.28	Recent dividend increase warranted by earnings.
Amer. Sugar Ref. com........	5.23	—0.25	2.90	4.99	18.46	.....	7	101½	6.89	Government price restrictions.
Amer. Tobacco com...........	30.39	28.11	21.00	20.10	22.70	.....	20	176½	11.33	Margin over dividend now larger than 1916.
Amer. Woolen com...........	2.01	—9.89	—0.06	6.40	15.32	.....	5	42	11.90	War orders large.
Amer. Zinc com.............	8.10	—4.65	1.53	54.92	34.88	.....	0	13½	0.00	Earnings affected by decline in spelter.
Anaconda Copper	3.65	2.61	1.88	7.16	24.35	.....	8	59¾	13.38	Expected to continue dividend despite taxes.
Baldwin Loco. com..........	11.49	13.09	—5.25	7.14	22.91	.....	0	55½	0.00	Should benefit by post-bellum demand for locomotives.
Barrett & Co. com...........	11.11	15.61	10.31	21.19	32.10	.....	7	93	7.52	Strongly intrenched against foreign competition.
Bethlehem Steel com.........	6.86	27.45	32.59	112.49	82.25	.....	10	81	12.34	Excess profits tax will be heavy.
Butte & Superior............	.....	3.47	5.21	33.37	31.79	.....	0	19	0.00	Further dividends enjoined pending decision in appeal of Minerals Separation suit.
Cal. Petroleum pfd...........	.....	11.69	11.49	7.80	8.44	.....	4	34¾	11.51	Position not encouraging.

(*Continued on page* 182.)

INDUSTRIAL EARNINGS, DIVIDENDS AND INCOME YIELDS—Cont'd

	Dollars Earned Per Share,						Present Div. Rate	Present Price	Yield on Price	
	1912	1913	1914	1915	1916	1917				
Central Leather com..........	8.58	5.18	6.41	10.82	33.14	.....	5	69	7.24	Gov't business. Will pay heavy excess tax. Extra div.
Chino Copper	2.80	3.51	3.44	7.67	14.76	.....	5	40¾	12.26	Extra dividends not expected to continue.
Continental Can. com.........	.....	12.10	4.09	12.10	22.38	.....	5	87½	5.71	Government business.
Corn Prod. pfd..............	6.89	7.69	7.70	10.59	20.39	.....	7	90½	7.73	Earnings estimated at rate of $25.
Crucible Steel com...........	6.81	12.84	—2.94	5.39	45.89	.....	0	61¼	0.00	Excess profits tax will hurt.
Cuba Cane Sugar com.........	.....	.....	.....	.....	17.36	.....	0	28	0.00	Earnings disappointing.
Distillers' Securities	1.62	1.17	2.28	4.64	10.30	.....	2	36⅞	5.42	Believed will benefit largely by high prices for spirits.
General Chem. com...........	21.72	19.19	18.73	44.27	86.76	.....	8	190	4.21	War earnings.
General Electric	16.19	12.88	11.12	11.57	18.31	.....	8	128	6.25	Burdensome inventories.
Goodrich, B. F., com........	0.34	0.83	5.62	17.17	12.76	.....	4	38½	10.38	Encountering competition. Operating costs heavy.
Greene Cananea Cop.........	4.31	2.33	1.97	1.04	7.03	.....	8	38¼	20.91	Fear effect of excess profits tax.
Great Northern Ore..........	1.75	0.71	0.54	0.70	1.39	.....	0	26¼	0.00	No regular dividend rate—last payment $1.
Gulf States Steel com.........	.....	.....	.....	10.17	30.25	.....	8	92½	8.64	Will suffer from tax and price fixing.
Inter. Agr. Chem. pfd........	11.22	—1.24	0.65	—0.47	9.80	.....	0	32½	0.00	Earnings excellent.
Inter. Har. N. J. com.........	16.18	15.54	14.41	16.19	21.45	.....	5	102½	4.87	A peace stock.
Inter. Mer. Mar. pfd.........	7.32	4.44	—0.58	26.26	51.23	.....	6	101½	5.91	Plan to pay 88% dividend accruals under consideration.
Inter. Paper pfd.............	5.35	4.44	5.08	5.44	20.62	.....	6	80	7.50	Earnings disappointing.
Mex. Petroleum com..........	5.90	11.58	4.68	5.12	15.83	.....	6	82½	7.26	Further development awaits quiet in Mexico.
Miami Copper	2.80	3.51	3.44	7.67	14.76	.....	6	30	20.00	Dividends jeopardized by excess profits tax.
National Enam. & Stamp. com.	—1.54	1.05	—0.32	2.02	11.60	.....	4	37	10.81	Increased dividends expected.
National Lead com............	3.81	3.64	3.73	4.86	6.16	.....	4	44¾	8.93	Lower lead prices should benefit.
Nevada Consolidated Cop.....	2.18	1.45	0.74	2.78	7.50	.....	2	17½	11.42	Dividends endangered by profits tax.
New York Air Brake.........	5.72	6.55	6.41	13.43	82.15	.....	10	109	9.17	Earnings large. Extra dividends.
Pittsburgh Coal pfd..........	7.48	10.07	5.06	6.11	11.64	.....	5	80	6.25	Coal price regulation.
Pressed Steel Car com........	0.76	10.56	0.14	3.60	15.00	.....	7	54¾	12.78	High costs cut down profits.
Railway Steel Spring com....	5.77	1.31	—0.42	3.09	20.49	.....	5	39	12.82	Repair business heavy. Earnings large.
Ray Cons. Copper............	1.33	1.85	1.65	3.08	7.65	.....	2	22	9.09	Profits tax may endanger dividend.
Sears Roebuck com...........	19.34	21.17	21.30	17.57	26.55	.....	8	143½	5.58	Record gross business continues, but margin of profit reduced.
Sloss-Sheffield com...........	0.84	2.09	0.21	0.53	14.44	.....	0	38	0.00	New management forcing retrenchment.
Studebaker Corp. com........	4.89	3.11	12.71	27.49	26.14	.....	4	36½	10.93	Large floating debt. Competition hurtful.
Tobacco Products com........	.....	0.30	1.03	2.31	5.44	.....	0	51½	0.00	Declared initial dividend of $1.50 a share.
United Cigar Stores com.....	5.75	6.83	7.09	7.69	9.48	.....	8	89	8.98	Record breaking business.
United Fruit	16.39	14.53	6.19	16.12	27.97	.....	8	117	6.83	Government regulating freight rates.
U. S. Cast Iron Pipe pfd....	5.69	4.50	—0.46	2.55	10.91	.....	5	51½	9.74	High prices curtail demand for pipe.
U. S. Ind. Alcohol com.......	5.00	1.89	1.90	12.60	36.00	.....	16	114	14.03	Earnings continue large.
U. S. Rubber com...........	6.00	12.19	9.18	10.80	17.75	.....	0	56½	0.00	High costs and competition.
U. S. Smelt. & Ref. com.....	14.42	10.08	3.21	27.85	40.99	.....	5	46	10.86	Benefits from high silver prices.
U. S. Steel com.............	5.71	11.02	.....	9.96	48.48	.....	5	100¾	4.96	Paying "extras." Severe inroads into profits from tax'n.
Utah Copper	5.35	5.38	5.34	11.03	24.00	.....	7	80	8.75	Tax will leave slim margin over dividends.
Willys Overland com.........	.....	4.61	4.33	11.34	6.63	.....	3	19¾	15.18	Manufacturing aeroplane motors.
Woolworth, F. W., com......	8.73	10.82	10.86	13.19	15.57	.....	8	118	6.77	Gross business record breaking.

Railroad and Industrial Digest

Note.—The Railroad and Industrial Digest, Notes on Public Utilities, Oil Notes and Mining Digest, contain condensations of the latest news regarding the companies mentioned. The items are not to be considered official unless so stated. Neither THE MAGAZINE OF WALL STREET nor the authorities for the various items guarantee them, but they are selected with the utmost care, and only from sources which we have every reason to believe are accurate and trustworthy. Investment commitments should not be made without further corroboration.—*Editor*.

RAILROADS

Atchison—August earnings, gross and net, $12,374,162 and $4,234,760 respectively compare with August, 1916, figures thus: $11,195,725 and $4,471,362. Eight months' gross and net show increases over the 1916 comparative period. The gross figures of $91,263,165 compare with $77,875,419, and net $27,492,952 with $27,151,631.

Central of N. J.—New Jersey Public Utility Commissioners have approved the application for permission to execute an agreement involving the merging with itself of 23 smaller railroads. The Central is the owner of all their bonds and capital stock, and some of them are indebted to the larger company. Included in the agreement is the understanding that Central will cancel bonds and capital stock of the minor concerns held by it and assume all obligations.

C., M. & St. Paul—Pres. Byram, who has returned from an extensive trip over the lines east of the Missouri River, says: "General business and prospects along our lines are beginning to show a noticeable change for the better. The past month shows some improvement in traffic as a whole. Tonnage in coal, lumber, live stock and general merchandise shows slight improvement, and grain will soon begin to move in earnest." Company has awarded contracts for electric locomotives and power transforming apparatus for 211 miles of line running from Othello to Seattle and Tacoma. This is additional to the 440 miles already electrically operated.

Chicago, R. I. & Pacific—In the eight months ended Aug. 31, 1917, earned a surplus of $3,106,000 after all charges, sufficient to meet a year's cumulative 5% dividend on both classes of pfd. stock, calling for slightly over $2,737,000, and leave a balance for the common. For the eight months gross was $57,211,000, an increase of $6,238,000, or 12%, compared with the corresponding period of 1916. In the same period, however, operating expenses increased over $7,700,000.

Grand Trunk of Canada—Reports earnings for August, 1917, as follows: Gross, £1,004,900; net, £216,700; 8 months' gross, £6,968,450; net, £1,484,500. These compare with the 1916 comparative period as follows: Gross, £1,040,230; net, £305,650; 8 months' gross, £6,136,700; net, £1,237,500.

Illinois Central—Work on the extension from Henderson, Ky., to Dawson Springs, through Dixon, Ky., probably will be started in the spring of 1918. The building of this road will give a straight line from Chicago to Dawson Springs through Evansville and, it is thought, will open the way for straight connection with the Atlantic coast at Savannah, Ga. Many new coal mines are being opened around Dawson Springs and a new electric light plant to cost $150,000 will be built at the base of the mines.

Kansas City Southern—Reports September gross and net $1,222,446 and $452,422. Nine months' gross and net were $9,901,323 and $3,404,951.

Lehigh Valley—Federal Grand Jury has returned six indictments against the Lehigh Valley; Fred E. Signer, general Eastern freight agent; Charles Schaefer and Charles Schaefer, Jr., composing the firm of Charles Schaefer & Son, of New York. The indictments contain 56 counts covering three kinds of offenses against the Interstate Commerce Act. The company and individuals are charged with making and receiving unlawful concessions in boat demurrage, with unlawful discrimination, and with conspiracy. The individuals indicted were held in $5,000 bail each for further pleading.

Louisville & Nashville—Report, 7 months ended July 31, 1917, shows: Total operating revenue, $42,472,814; net after taxes, $10,969,429; other income, $3,722,494; gross income, $14,691,923; balance after charges, $9,706,974; sinking funds, etc., $51,781; surplus, $9,655,193.

Missouri Pacific—In the first three months of the current fiscal year had surplus after charges of $3,250,000, so that the quarter's interest on the $44,399,000 general mortgage 4s was earned between six and seven times. Result of reorganization has been a big re-

duction in proportion of fixed interest-bearing securities, which now constitute about 58% of total capitalization. About $69,000,000 of old bonds were converted in the reorganization into 5% pfd. stock, in this way reducing fixed charges over $3,000,000 yearly.

N. Y. Central—Syndicate headed by J. P. Morgan & Co., which underwrote the $15,000,000 2-year 5% notes, has been dissolved. It is stated that nearly all of the notes have been sold, leaving a small balance to be distributed among the syndicate participants. The syndicate expired at the close of business, Oct. 15.

N. Y., N. H. & H.—Is stated to be doing all its construction work and conducting all its business upon a cash basis. It is claimed that if stockholders could see all the improvements that have been put upon the system to increase economies in transportation and to handle the steadily increasing business, they would take heart over the situation and support the authorization of $45,000,000 7% pfd. stock, approved by a vote of stockholders on Oct. 24. After a study of the situation it was determined that safety and progress required many minor expenditures at various points for the company to get the full benefit of its transportation machinery.

Norfolk & Western—Reports earnings and net: Sept. gross, $5,719,694; net after taxes, $1,861,015; surplus after charges, $1,673,858; 9 months' gross, $48,365,495; net after taxes, $14,584,872; surplus after charges, $14,185,267.

Pennsylvania—Earned 8.7% on $499,265,700 stock in the 12 months ended Aug. 31, 1917. In the eight months, from Jan. 1 to Aug. 31, the amount was $6,610,111 less than in the same period of 1916. For the fiscal year ended Dec. 31, 1916, $52,276,504, or 10.4% was earned. These figures are operations of Pennsylvania R. R. and take no account of equities in surplus profits of Pennsylvania Co. and "Panhandle" or subsidiaries of the Pennsylvania system.

Pitts., C., C. & St. L.—It is stated that the stock is regarded as on a 5% basis, although dividend of 2½% declared June was officially designated merely as a dividend. Since that action was taken there has appeared no reason in the earnings position why another 2½% should not be declared in December, making 5% for 1917 on the stock of the new company, which is all of one class. In the first eight months of 1917 "Panhandle" earned $316,813 less surplus over fixed charges than in same period of 1916, and in that entire year $5,590,643 was earned available for dividends.

Southern Pacific—Reports September earnings $17,136,201, net $3,127,002; and for 9 months $141,008,969, net $44,034,669. Except for a charge against September net $3,312,006, as nine months' tax accrual under the War Revenue act, net would have shown increase $706,500, compared with September, 1916. The net three months will carry one month's proportion of this tax, so that road's net for final three months may be expected to show increases as usual.

Southern Ry.—With an income applicable to dividends $3,026,263 in excess of its best previous record, seems to have entered upon a career of profitable railroading. Not only was the year just closed the best in its history, but since the close of the year the company has continued to show improvement in its earnings.

For the full fiscal year Southern earned 20.6% on its pfd. stock, or 7.8% for the common, after allowance for 5% on the pfd., against 15.56% on pfd. and 5.27% on common in 1916. In 1917 it earned its fixed charges 1.82 times over, against 1.62 times in the preceding year.

Union Pacific—Has started an experimental class for women in Omaha to train them as future ticket agents and passenger office clerks and will extend the experiment, if successful, anticipating heavy drafting of men. Reports gross earnings for September $11,863,258 (an increase of $878,666, or 8%) and net $4,277,550 (a decrease of $801,020, or 15.8%). The decrease is due to a $1,266,549 (23.3%) jump in operating expenses and a $413,137 (86.9%) leap in taxes for the month. Increase in gross was due chiefly to $756,117 (39.9%) gain in passenger revenue. Freight revenue decreased $10,563. Increase in expenses centered in transportation costs, which advanced $836,040, or 33.1% over September, 1916. Outlay on maintenance for the month was $334,553, or 14.3% more than the same month in 1916. Nine months' increase was $10,886,232 (13.3%), in revenue, centered in freight revenue gain of $6,499,723 (10.9%) and passenger revenue gain of $3,218,899 (21.8%).

Mail revenue decreased $609,907. Government tax bill for the nine months increased 50.3%; maintenance expenses, 9.7%; transportation expenses, 33.2%.

Wabash—Reports earnings and net: September gross, $3,541,720; net, $1,158,530; 9 months' gross, $29,721,579; net, $8,648,540.

Industrial Digest

Am. Beet Sugar—Following paragraph from a statement by Food Administration should prove of interest, conveying an intimation that Government may see the desirability of protecting the industry. "If speculation in Cuban sugar had not been checked, it is not unreasonable to believe that sugar would have been selling wholesale today at from 10 to 12 cents. This demonstrates the value of a domestic-grown product. Too much emphasis cannot be placed on this fact, and attention of the public should be directed to this most important industry. Every encouragement should be given to this, one of our most important domestic industries."

Am. Car & Foundry—In the banner fiscal year ended April 30, total profits were $17,522,909, compared with $4,595,359 in the previous 12 months. Net of $8,210,872 after pfd. dividends was equal to 27.37% on common stock. This compared with 2.39% in 1915-16 fiscal year. Officials hesitate to predict net earnings in the current year, but acknowledge that profits will be large enough to leave a substantial margin for common shares.

Am. Hide & Leather—Earnings statement, three months ended Sept. 30, 1917, shows net earnings of $489,262, and surplus $323,887, or $2.49 a share on the pfd. at annual rate of $9.96. Bills payable amount to about $4,000,000, compared with $3,600,000 as of June 30, 1917, but quick assets have increased. At Sept. 30 net current assets were $12,812,231 and bonds and hands of public $3,424,000. Balance of quick assets above par of bonds was $9,388,000.

Am. Ice—Because of coal shortage has decided to close a contract with the N. Y. Edison for supplying power to its artificial ice plants in the Metropolitan district.

Am. International—Has purchased control of Amsinck & Co., Inc., export and import house which has developed business with South and Central America, amounting in 1916 to $36,000,000.

Am. Malting—General balance sheet, Aug. 31, 1917, shows profit and loss surplus $2,392,173, compared with $2,046,598 Aug. 31, 1916. The annual report shows gross income, $990,767; net earnings, $669,618; and surplus for year, $345,574.

Am. Smelting—Jones & Co., Oct. 26, 1917, stated that is making preparations to re-open plant at Chihuahua, where about 5,000 men will be employed. Plants at Matehuala, Aguas Calientes and Valardena are being operated at half time.

Am. Sugar Refining—Has purchased 100,000 tons (or 33% of the crop) of Louisiana raw sugars for $3,000,000, to send most of it North to relieve shortage.

Am. Tobacco—Sales in September gained $1,600,000 over September, 1916, compared with increase in August over 1916 of $700,000 and in July of better than $1,000,000. War tax possibility is $1,000,000 a year and net earnings are being estimated on this basis. An estimate of $25 a share for common is predicted for 1917.

Atlantic, Gulf & W. I.—Estimated that on Jan. 1, 1918, company will have in cash and Liberty Bonds around $16,000,000 after deduction of excess profits tax estimated at $5,500,000.

Baldwin Locomotive—Has received orders for 300 large freight locomotives for the Government, to cost around $13,000,000, and 600 gasoline engines to cost $4,500,000.

Barrett—Based upon earnings for first eight months and outlook for balance of the year, it is estimated that net earnings, after allowing for depreciation and Federal taxes, will reach $20 a share upon the common stock. There is no reason to anticipate any change in dividend policy.

Bethlehem Co.—Earnings, seven months ended July 31, 1917, of this subsidary of Bethlehem Corp. and its subsidiaries, compare as follows: Manufacturing profit before depreciation, etc., $36,270,252, against $57,885,531 for the year ended Dec. 31, 1916; total net, $32,792,348, against $41,814,801 for 1916. Consolidated balance sheet, as of July 31, 1917, shows profit and loss surplus $37,149,968.

Beth. Steel Corp.—With $140,000,000 net working capital has net quick assets approaching par of bonds and new 8% pfd. stock. New financing is said to be due almost entirely to Government orders. Orders total more than one-half billion dollars. Of this close to 80% is Government orders. To end Dec. 31, 1917, it is estimated that company will show surplus available for common of about $140 a share after war taxes.

Burns Bros.—Statement, April 1 to Aug. 31, shows: Net sales of coal, $7,336,736; costing $5,596,757; gross profits, $1,737,979; net after operation and general expense, $362,676; net, including other income, $484,134.

Central Leather—Earnings statement, ended Sept. 30, 1917, shows: Total earnings, $3,462,105; total income, $1,913,984; surplus, less pfd. and common dividends, $40,972. Operating results, first nine months 1917, show: Total earnings, $17,504,350 total income, $12,769,411; surplus less pfd. and common dividends, $7,944,396. For the

first nine months $27.76 earned on the common, compared with $17.90 in the same period in 1916. September quarter was the poorest period of 1917, with net earnings above interest and pfd. dividends equal to $13.40 a share per annum. A heavy charge for excess profits tax is included in "operating expenses."

Chandler Motor—Reports net profits from Jan. to Oct. $2,110,000, or $30 a share, against $1,339,000, equal to $19 a share for the corresponding period of 1916. Balance sheet, Oct. 1, shows: Cash, $974,466; Liberty bonds, $251,933; accounts receivable, $307,426; inventories, $3,385,949; plant and equipment, $638,541: other assets, $100,370; good will, $5,000,000; total, $10,658,685. Liabilities: Accounts payable, $672,741; dividends payable, $210,000; reserves, $175,440; capital stock, $7,000,000; surplus, $2,600,504; total, $10,658,685.

Colorado Fuel—Report, quarter ended 1917, shows: Gross receipts, $10,441,420; oper. expenses, $8,826,097; total income, $1,789,112; surplus, (after interest, etc.), $1,077,473.

Corn Products—Plant at Edgewater, N. J., resumed operations Oct. 16. Edgewater handles approximately 30,000 bushels of corn daily at capacity, and is the corporation's second largest plant.

Distillers—Estimates for 1917 indicate that earnings will treble those of 1916, when, after purchasing and canceling $2,000,000 of its bonds, the balance was equivalent to 10.30% on the capital stock. Importation of denatured alcohol has increased tenfold during the war and Distillers is receiving its share. It is understood that for three months to Sept. 30, net profits averaged $900,000 to $1,000,000 per month.

General Chemical—Reports profits for 9 months to Sept. 30 $7,226,789 (deducting proportion of estimated Federal taxes); balance for dividends $5,501,789. This is $30.62 (net) on the common for the period.

General Motors—In September earned profits of $3,225,000, compared with $3,150,000 in August, and $2,200,000 in September, 1916. Balance of profits for common in September was equivalent to 3.9%, making 7,7% in the first two months of 1918 fiscal year.

Goodrich—Note issue $15,000,000, 6% 2-year, is due to record volume of business handled. It is likely that for 1917 gross will exceed $85,000,000, compared with $70,990,782 in 1916 and $51,456,867 in 1915.

Gulf States Steel—Net operating income for September amounted to $287,193, an increase of $31,015 over the same month of 1916. For nine months period, net operating income $3,098,800 is an increase of $1,361,077 over corresponding period in 1916.

Kelly-Springfield—For fiscal year ended Dec. 31, 1916, earned approximately $10 a share for its common, compared with $7.50 in 1915. Company is reported in good shape as far as low-priced crude rubber is concerned, and new plant at Cumberland, Md., should mean a large increase in earnings.

Kress Co.—Reported September sales as $1,366,675, an increase of $166,876, or 13.9%.

Nova Scotia Steel—Is earning slightly better than $20 per share on $15,000,000 common. This is after heavy Canadian war taxes.

Pittsburgh Steel—Net profits of $7,811,444 for year ending June 30, 1917, are equivalent to $101.09 a share on $7,000,000 common after dividends on the pfd. Balance sheet shows profit and loss surplus of $13,191,917, compared with $7,130,473 June 30, 1916.

Swift—Reports average net profit over a series of years has been less than three cents per dollar of sales. Average profit from cattle in five years to Sept. 30, 1916, has been $1.22; from sheep and lambs, 19.9 cents, and from hogs, 58.5 cents per head.

Tobacco Products—Net earnings, eight months ended Aug. 31, 1917, amounted to $1,400,445, compared with $809,108 for the corresponding period of 1916. Profit and loss surplus was $3,165,470.

Union Bag—Established precedent in declaring extra dividend 2%, payable in Liberty Bonds. No protest by stockholders is expected. Corporation will issue interim certificates to stockholders whose holdings entitle them to disbursements amounting to equivalent of the smallest bond to be issued.

Wells Fargo—Net income $4,289,739 for fiscal year ended Dec. 31, 1916, is equivalent to $17.89 a share.

Willys-Overland—Reports that the development of new low-priced car, which is to challenge Ford, has reached the point where, as soon as dies, tools and final equipment can be assembled, factories will be lined up for volume production. The new Overland, like the Ford, will have two speeds, but will use sliding gear instead of planetary transmission. Behind the new "model Four" there stands $70,000,000 assets. Company will have a 9% exemption upon invested capital, which upon $70,000,000 assets will amount to $6,300,000. Taxable excess, therefore, will amount to $540,000, or 32 cents on common stock.

Worthington Pump—Profits have been climbing steadily in 1917, and in September it is understood they were slightly above $600,000, or $50 per share on common stock. It is expected that for 1917 Worthington will earn close to $30 per share after deduction of excess profits taxes.

Railroad and Industrial Inquiries

Northern Pacific Under Present Conditions

J. F. M., St. Paul, Minn.—Northern Pacific is a stock about which you need not worry if you are in a position to hold it for perhaps two or three years, regardless of temporary market fluctuations. The whole market, as you know, is in a very disturbed condition and there will doubtless be many unfavorable influences at work as long as the war continues. But even under a long period of stress there need be no apprehension as to the ability of the Northern Pacific Railroad to keep up paying the 7% dividend. Investors should think twice before allowing themselves to be frightened out of high-grade railroad stocks at large losses.

Changed Outlook for Rock Island

T. D. A., Chicago, Ill.—Chicago, Rock Island & Pacific recent earnings have not made a favorable impression. The road did very well in 1916, showing a balance equal to nearly 11 per cent on its common stock. Such results raised high hopes for the future, resulting in a short-lived boom in the new issues. But this year Rock Island has begun to feel the full effects of increasing costs of operation. For the first seven months of the current year, the surplus available for the common stock has amounted to less than 1 per cent, as compared with 2.41 per cent for the corresponding period in 1916. This has made a very decided change in the dividend outlook for the Rock Island stocks. Under the circumstances we do not favor a purchase of the stock for a long pull.

Switch from B. & O. to Chesapeake

H. S. M., Kansas City, Mo.—Baltimore & Ohio is in danger of a dividend reduction. Earnings for the eight months ended Aug. 31 were at the rate of 6.72 per cent annually, as against 8.69 per cent a year ago. Unless a change for the better comes very soon, it would appear that the margin over the present 5 per cent rate will become too small to justify its continuance. We hesitate to advise you to take such a large loss as this commitment shows you, but we are frankly of the opinion that you would have a much better chance of recovering your loss if you switched into a stock like Chesapeake & Ohio, paying dividends of 4 per cent per annum, and earning approximately 10 per cent. There is reasonable promise of an increase in Chesapeake & Ohio dividend. Do not buy Chesapeake, however, until market conditions improve and the trend of new international developments is more favorable.

Reorganized Pere Marquette Not Yet on Sure Footing

L. B. F., Battle Creek, Mich.—Pere Marquette, is, it is true, earning at the rate of $7.00 a share per annum, and therefore appears to have rather attractive speculative possibilities. But we do not favor it as much as a stock like Kansas City Southern, which is earning practically at the same rate as Pere Marquette. Kansas City Southern is an old established line which has paid dividends on its preferred stock for years while Pere Marquette has recently been through a reorganization. The results now being obtained by Pere Marquette appear to be somewhat abnormal and they may be of temporary duration only. The reorganization was drastic but the Pere Marquette still has a rather heavy burden of capitalization consisting of a total of $39,720,000 funded debt, $11,200,000 prior referred stock, $12,429,000 preferred and $45,046,000 common stock outstanding. At present dividends are being paid on the prior preferred stock only.

"Mop" Favorable Showing Not Yet Conclusive Proof of Ability to Pay Dividends

T. J. V., Portland, Oregon.—Missouri Pacific is not a desirable purchase for investment. Since reorganization, by which the bonded debt of the company was considerably reduced, the road has undoubtedly improved its position. If the reorganized basis of fixed charges had been in effect during the 12 months ended June 30, 1917, the company would have earned the full 5% on the new $76,751,635 preferred stock and a balance of $5,537,000, or the equivalent of 6.68% on the $82,839,000 new common stock outstanding. During this fiscal year the company also expended $2,000,000 more for maintenance than is normally required, and of course this road, in common with others, has felt the effects of prevailing high operating costs. While this showing is commendable the fact must not be lost sight of that "Mop" is still burdened with a heavy capitalization.

An Attractive Low Priced Rail

M. E. D., Cincinnati, Ohio—Kansas City Southern is selling at the lowest price reached in over ten years, notwithstanding the fact that the road is enjoying one of the most prosperous periods in its history. Earnings on the common stock for the fiscal year ending June 30, 1916, were equal to 2.97%. For the seven months of the current fiscal year ending August 31 (the fiscal year has been changed to correspond with the calendar year) earnings were at the annual rate of over 6½% on the common stock after allowance for preferred dividends. Kansas City Southern is one of the few roads of the country which has been able to increase its net despite the great increase in operating expenses. This testifies to the efficiency of the company. The road occupies a strategic position of importance and when there is a return to normal times, it will benefit very materially by the expansion of traffic through the Panama Canal. We advise you to hold the stock, since you could not sell except at a very heavy loss.

Colorado & Southern's Strong Position

R. L. T., Buffalo, N. Y.—Colorado & Southern Pfd. is in a comparatively strong position. The par value of this stock is $100. It is entitled to dividends at the rate of 4 per cent per annum, non-cumulative. The dividends were paid regularly up until 1914, in which year only one semi-annual payment was declared. Dividends were suspended until the latter half of 1916, when they were resumed at the regular semi-annual rate of 2 per cent. The earnings on the stock for the past few years have been as follows, (years ended June 30): 1913, 19.59 per cent; 1914, 4.77 per cent; 1915, 6.52 per cent; 1916, 25.32 per cent. For the 1916 calendar year earnings equalled 34.52 per cent. Current earnings are running at the annual rate of about 50 per cent on the first preferred stock. This road is controlled by the Chicago, Burlington & Quincy. It is therefore under excellent management. We regard the stock as a very conservative investment to hold for income. The market in this stock is very narrow, and of course the speculative possibilities of the issue are limited because of the fact that the maximum dividends are 4 per cent.

The Unfavorable Factors in American Sugar

L. B. F., Bangor, Maine.—American Sugar Refining should be disposed of on good rallies. Price regulation and excess profits taxation will hurt this company and the stock is already selling high as an investment, although there is no denying the fact that its position from a purely investment standpoint is strong, backed as it is by large assets and an ample margin of earnings.

A Peace Stock Speculation

G. C. S., Boston, Mass.—International Harvester of New Jersey, common stock is on a regular 5 per cent dividend basis. The company is in a very strong financial position, and at the close of 1916 had $17,852,465 in cash—equal to about $44.00 a share on the common stock. Net assets applicable to the common stock amounted to $74,430,625 or $185.00 per share. The company's foreign business, which is now transacted through the twin concern—The International Harvester Corporation—has suffered considerably because of the war. It would hardly seem likely that in view of existing uncertainties the company's management would consider any large extra distribution at this time. However, we regard this stock as a good speculative purchase on weak markets on the theory that it would be greatly benefited by the advent of peace.

General Chemical After the War

J. H. L., Jacksonville. Fla.—General Chemical's extraordinary prosperity of the last two years has been due in a great measure to conditions brought about by the war. The company earned 86.76 per cent for its common stock in 1916 compared with 44.27 per cent in 1915 and 18.73 per cent in 1914, 19.19 per cent in 1913, 21.72 per cent in 1912 and 19.77 per cent in 1911. It can readily be seen from these figures that the company will be subject to very heavy excess profits taxation. This taxation will, of course, be an unfavorable factor as long as the war continues. After the war is over the company cannot be expected to show any such earnings under normal conditions as it has under war conditions. In view of these unfavorable factors, it is hardly possible that the stock will again sell back to the price you paid for it within a year at least. You should not hold it in that expectation.

Saxon Motor's Difficulty

B. D. C., Baltimore, Md.—Saxon Motors has fallen so low that it would hardly seem that the stock is over-valued. But if the war continues and the company continues to encounter the competition which is inevitable under war conditions when the demand for motor cars will most certainly show a progressive decrease, it is not likely that higher prices than now current will be justified and there is danger that the company will find it difficult to maintain operations without resorting to a capital readjustment to obtain fresh funds. A company like Saxon suffers more from high costs of materials and decrease in demand because it makes a low-priced car. This car comes into direct competition with the powerful Ford organization. The dividend on the stock, as you doubtless know, was passed and the bankers who financed the company originally along with the creditors, had to come to its assistance. More recently a new note issue has become necessary. The Saxon Company has not yet had a chance to demonstrate what it can do under a prolonged period of stringent conditions. Its position is uncertain.

Analyzing An Alluring Prospectus

J. A. K., Memphis, Tenn.—After reading your circular on Sugar Cane By-Products Company of Philadelphia, and being duly impressed by its enthusiastic description of its wonderful possibilities, we were mildly surprised to find on page 20, that the company has "an actual plant *almost* ready to operate." After having been informed "that Senator Miller is probably the biggest man in the paper industry in the world," wasn't it somewhat of a surprise to find that he and his associates need your money to buy raw materials with which to run the mills which are not yet completed. Is this a sort of subtle flattery of the small capitalists, or is it an admission on the part of the organizers of this concern that they would rather gamble on its success than someone's else funds? It looks very much as if the latter is the case, and we would advise you to disappoint them. You should never put money into a proposition of this kind, unless you can afford to lose every cent of it, and look upon your loss with entire quanimity.

BONDS AND INVESTMENTS

Possibilities in Convertible Bonds

A Selection of Issues Now Showing High Yields, Some of Which Have Also Very Good Convertible Possibilities

By IRVIN GILLIS

IT'S just a question of how much cheaper good bonds are going to be. They are certainly cheap now. On the other hand they will keep on dropping as long as conditions are against them.

It is all very well to figure out how much lower English bonds of like character went after the beginning of the war and to consider the more favorable position of this country, but maybe you have not considered that our downward market began its plunge from boom figures, while there was certainly no optimism as expressed in prices in the international security markets at around the beginning of the great war.

As I stated with some emphasis in the issue of September 29, it doesn't pay to buy convertible bonds in an unfavorable market with the idea that the convertible feature adds anything to the value. Chile Copper 7s were then around 112, after a decline of about 10 points in a couple of weeks. Those same convertibles are now around par, and I wouldn't give that for them as a straight investment.

On the other hand, when you are checking up the prices of bonds on that list of yours, which is going to absorb those salted away savings that you have been holding these many months and the proceeds from the short term notes you have in your safe deposit vaults, why not keep track of good convertibles and measure their security and investment yield against the field? When the right time comes, buy them as straight investments and some day you are apt to find a nice profit in the stock end. *It may surprise you to find that convertible issues with a very promising speculative kick in them are actually selling lower than longer term bonds of the same mortgage.*

The advice scarcely seems necessary—but don't forget about the convertible feature after you have bought the bonds as a straight investment. There has been many an issue of convertibles that had a number of holders who allowed extremely valuable privileges to expire by default, the company taking the bonds in at par on maturity, although the holders could have turned them into stock worth from 105 to 150 per cent. of the redemption price.

In the first August issue I called attention to the French Government secured 5½s of April 1, 1919. If you haven't bought any, it's a good time to start.

Some of the good solid railroad convertible bonds are selling at very low prices, especially the Chesapeake & Ohio 4½s of 1930. A few others are described below, and also a couple of industrial issues.

Attractive C. & O. Issues

Chesapeake & Ohio has not only one but two issues of convertible bonds, a 4½ and a 5. The 4½ per cent. issue is a direct obligation and equally secured with the first and improvement 5s of 1930-1946, and the company can't put out any obligations ahead of these 4½s without equally securing them. They are then really a third lien on 367 miles, a fourth on 801 and a fifth on 252 miles, with the first and improvement 5s. The 4½ per cent. issue has a comparatively early maturity, February 1, 1930, and is convertible into common stock at par up to February 2, 1920, but callable at 102 and interest.

The 5 per cent. convertibles are longer away, maturing in 1946. They are secured by a pledge of $45,920,000 first and improvement 5s referred to above and so are on a parity with the 4½s. The convertible 5s are outstanding to the amount of about $5,000,000 less than the amount of the bonds deposited as collateral security. The 5s can be called in, as a whole only, at 105 up to April 1, 1929, and afterwards at par. The convertible feature is one of sliding scale:

From April 4, 1916, to April 1, 1920, inclusive, at $75 per share.

From April 2, 1920, to April 1, 1923, inclusive, at $80 per share.

From April 2, 1923, to April 1, 1926, inclusive, at $90 per share.

From April 2, 1926, to April 1, 1936, inclusive, at $100 per share.

The convertible 4½s selling at 73¾, yielding as an investment around 7.50 per cent., are the more attractive as regards maturity and yield. The 5s sell a little higher, presumably

on account of more promising convertible privilege.

Chesapeake & Ohio at the present time is a little top heavy, having $228,000,000 of bonds and only about $62,000,000 of stock, but if it can exchange its $71,500,000 of convertible issues, it would make the new basis of capitalization $134,000,000 of stock and $151,000,000 of bonds, which would conform a good deal better to the standards of railroad financial structure.

Of course, Chesapeake & Ohio has been and is making a lot of money, but it is quite a way from even the high price in 1916 of 71 to the conversion privilege figure for the 4½s, but if the war ends before this country is financially tired, there could easily be quite a little value to the call of the 5s on the common at 75 to April 1, 1920, or even the higher conversion figures of later years. The speculative kick of the 5s, therefore, seems worth more watching than the 4½ per cent. issue.

One has to say that these 5s are extremely attractive, but the conversion privilege is not of sufficient immediate allurement to deserve very much consideration just now. It is interesting to recall that these convertible 5s were offred to the stockholders in April 1, 1916, at 97½, but the stockholders didn't enthuse over their "right," and the syndicate had to take over most of the convertibles. They have followed the general bond market down.

For the year ended December 31, 1916, Chesapeake & Ohio earned 12.21 per cent. on its $62,792,000 capital stock, and for the fiscal year ended June 30, 1917, it earned 13 per cent. The company is in good financial condition, and at the end of 1916 it had a working capital of $11,383,000.

While this company was building up its financial position in 1915 dividends were omitted, but in 1916 it paid 2 per cent., and the stock is now on a 4 per cent. basis, and the company has recently put in operation a cut-off line connecting with the Hocking Valley, which it controls, that will greatly expedite its heavy shipments to the lakes. It would not be unreasonable to look forward to an increase in dividend disbursements if earnings continue at anything like current levels.

Southern Pacific's Convertibles

Southern Pacific also has two convertible bond issues. One is a 4 per cent. issue, due in 1929, only 12 years away, and offering a splendid investment yield. At around 80 they net over 6.50 per cent. The issue is convertible up to June 2, 1919, into common stock at 130. Personally I wouldn't give very much for a call on the stock at this price. The issue is a debenture, but the credit of the Southern Pacific is so high and the margin of earnings so liberal that these fours must be placed in any list of attractive relatively short term issues.

The other issue, a 5, is due in 1934 and has a call on the stock at par up to June 2, 1924. They are really debentures, but are legal for savings banks in California and New Hampshire. At current price levels around 89, they yield about 6.35 per cent. as a straight investment, and the call on the stock at par makes them look better than the 4s.

Southern Pacific stock sold up to 104⅛ in both 1916 and 1915, 99½ in 1914, 110 in 1913, 115½ in 1912, 126⅜ in 1911 and 139¼ in 1910.

This property showed its low earning level in 1915, with 7.20 per cent. indicated on the common stock. It showed 10.98 in 1916, but earnings for the current calendar year promise to exceed the present 6 per cent. dividend requirements over three times. If the pending Government suit over Southern Pacific's oil lands results favorably to the company it will mean a good deal to the long-pull prospect, but how great the immediate effect on the price would be is a matter of doubt.

B. & O. Convertibles Are Low

The Baltimore & Ohio has a convertible 4½ per cent. issue, due March 1, 1933, exchangeable for the common stock at 110 until March, 1923. They originally were debentures, but are now secured under the same mortgage and terms as the refunding and general 5s of 1995 upon the road and property, including equipment, terminals, securities, etc.

The 4½ per cent. convertibles are outstanding to the amount of $63,250,000. It is a closed issue, and the fact that it is of so very much shorter maturity than the 5s coming due in 1995 makes them much more attractive, even without considering the speculative possibilities of the convertibles. However, just to show that the stock market is always full of anomalies, the refunding and general 5s are selling around 86, to yield less than 6 per cent., while the convertible 4½s are selling around 80, to yield 6.60 per cent. as a straight investment.

The convertible 4½s are legal for savings banks in ten states. The splendid credit of the old established Baltimore & Ohio and the recognized security of the convertible 4½s entitles this relatively short term convertible issue to consideration in these unusual times.

The Baltimore & Ohio was severely affected by poor business in 1914 and 1915, and for the year 1914 the road actually had to draw on its surplus to the extent of $2,277,000 to pay the full 6 per cent. dividend on the common which had been earned with rather scant margins in the three previous years. In 1915 the road reduced its common dividend disburse-

ment to 5 per cent. and showed a balance for the common of $770,000, or 0.49 per cent., after dividend payments. The 1916 results were considerably better, with 7.41 per cent. for the junior issue.

At the present time the stock is showing the best earnings since 1910. Apparently the conversion privilege of the 4½s may not prove of any great importance. The common stock has not sold at par since 1913, and only once in the past seven years has it reached the convertible figure, and then 110 was passed by less than two points. Still 1923 is a long way off, speaking stock market wise, and as with all other convertible bonds, the Baltimore & Ohio 4½s should be bought only as a straight investment, with the speculative feature thrown in.

Standard Milling

The Standard Milling Co. put out $1,100,000 of 6 per cent. convertible debenture bonds in general balance sheet, while not conclusive in regard to the position of each subsidiary, gives evidence of a splendid financial position for the properties as a whole.

The common stock paid its first dividend in the fiscal year 1912-1913 of 2 per cent.; the following year it paid 3 per cent. and in 1916 6 per cent. plus 1 per cent. in stock. The stock since about a year ago has been on an 8 per cent. dividend basis, payable half in cash and half in stock, and October 24, 1917, this dividend was declared ahead for a whole year. The common stock was as low as 15 in 1911, but has climbed up gradually, and sold as high as 107½ in 1916, with a low for last year of 86. As recent as 1915 the stock sold for 43½.

The Standard Milling Co., which among other properties owns the entire capital stock of the Hecker-Jones-Jewell Milling Co., has in its widely diversified food products the capacity for expansion it has aggressively sought.

ATTRACTIVE CONVERTIBLE BONDS

	Interest Rate	Due Date	Approximate Price	Yield
Baltimore & Ohio	4½%	March 1, 1933	80	6.5%
Chesapeake & Ohio	4½	February 1, 1930	73	7.5
Chesapeake & Ohio	5	August 1, 1946	74	7.1
Southern Pacific	4	March 1, 1929	79	6.6
Southern Pacific	5	June 1, 1934	89	6.1
Standard Milling	6	August 1, 1926	95	6.7
Virginia-Carolina Chemical	6	May 15, 1924	98	6.4

July of last year, at the time the Standard took in the Colonial Flour Milling Co. These bonds are due in 1926 and convertible into the common stock at par at any time from August 1, 1918, to maturity. There are comparatively few people who know that the Standard Milling Co. stock is listed on the New York Stock Exchange, but it is, and active enough to give reasonably reliable quotations.

The company's financial position has grown constantly stronger. Earnings have been consistent to a remarkable degree. The company has outstanding besides $6,488,000 of non-cumulative preferred, $4,786,000 of common, and earnings on the common for the years ended August 31, beginning with 1909 and up to and including the year ended August 31, 1917, were as follows: 5.34 per cent.; 5.80 per cent.; 5.98 per cent; 7.40 per cent.; 9.29 per cent.; 14.13 per cent.; 16.81 per cent.; 27.60 per cent. and 26.9 per cent.

Unfortunately the "earnings" are taken from a number of subsidiaries, and we are not able to analyze the condition of each one. The other day one of the officials stated that all the subsidiaries were making good money. The stock, while one of the lesser known issues, will sell very much higher in a fair market, and is now quoted around 85. The bonds, a short term issue of very good caliber as a "business man's investment," are quoted today at 96¾ sellers. There aren't many issues in the market better worth checking up every month or so.

A Good Short Term Bond

The Virginia-Carolina Chemical convertibles are 6s and due May 15, 1924. They are now in the medium short term class and selling around 98, offering very good speculative possibilities combined with investment character. The conversion figure is 110, at which price they are exchangeable into 8 per cent. cumulative preferred up to October, 1922. There is a sinking fund of 2½ per cent. annually of the outstanding bonds. While not a mortgage, these debentures are a direct obligation and are preceded by only $12,600,000 first 5s and no additional lien can be placed on the company's assets which does not equally secure the convertible issue.

What Every Investor Ought to Know

How to Combat the Hypnotism of the Prospectus and Stock-Selling Circular—Fundamental Rules For the Investor to Follow

By JAMES KENNEDY

"WILL you please give me a letter of introduction?" a young man asked Mark Twain some years ago.

"But I do not know you; I have never seen you before," replied the great man. Nevertheless the young man pleaded and urged his case until Mark sat down and wrote him the following letter:

"To whom it may concern: I know nothing about the young man who offers you this letter, but I admire his nerve."

This is the letter of introduction of the brokerage or investment firm which sends you a letter about a speculation and terms it an investment.

As you read this article thousands of American citizens are opening their mail and reading the story of the "most wonderful investment ever offered to the public." The circular is printed in two or three colors with artistic typography and alluring illustrations. It is written by a master of the English language and it cannot fail to attract the attention of the average business man or woman. But if you are the one who has enjoyed the reading of this interesting offer of the well-known investment firm of Jones & Smith, just put it aside for a moment and ask yourself this question:

"Is this an investment?"

You know that you cannot afford to speculate. You have labored too hard and long for that surplus to lose it in a few days or weeks and you desire to invest. Therefore, it is necessary that you conserve this hard earned surplus and take no chances with it.

You wish to invest. Are you sure that this blatant prospectus is an investment? Do you know what an investment is?

What Is an Investment?

Readers will recall Beriah Sellers' Infallible Imperial Oriental Optic Liniment and Salvation for Sore Eyes—small bottles fifty cents, large ones a dollar. Average cost, five and seven cents for the two sizes. Capital needed to manufacture the first two thousand bottles, only one hundred and fifty dollars. There are millions of people in the world. Everyone will need a bottle, for nearly everybody has ophthalmia. There's millions in it! Even the schoolboy recognizes that Col. Sellers' scheme is not an investment.

Oils and mining stock ventures offer the greatest inducement for stock promotions. It is therefore among this class of offerings that the greatest danger to the public lies. Before the minister, the small retailer, the farmer or the widow answers the advertisement received in the mail, it is very necessary to repeat the following sentences:

"The distinguishing characteristic of a speculation is the fact that its value depends upon circumstances which cannot be known because the future is needed to reveal them. An investment, on the other hand, contains no 'ifs' or 'provideds' or 'reasonable certainties.' Its value is founded upon certainty. A speculation is founded upon shifting sands of probability and supposition." (Meade.)

Also read over the following questions which appeared in an editorial of the *Wall Street Journal* seventeen years ago and apply them:

1. What were the plants able to earn on the average for the five years preceding the combination?
2. What would this amount have paid on the present amount of stock?
3. How much have expenses been reduced by consolidation?
4. What will the combination have to earn net to pay 7 per cent. on its preferred stock?
5. How much in excess of that amount is the company earning now?
6. What is the amount of its net floating debt?
7. How is the floating debt secured?
8. Is the corporation hampered by burdensome contracts?
9. Can it enforce its own contracts with buyers?
10. What is the extent of the competition encountered?
11. What is the possibility of reducing operating expenses?
12. Is the management in every way competent and satisfactory?

Now, if you are not accustomed to the study of investments you will perhaps say, "What good will it do me to ask all these questions for when I find out the answers I shall not know much more than I did before?"

The fact of the matter is that unless you are able to understand these questions and answers, you have no right to invest your

money and you should be careful never to be guided alone by the circular or prospectus of any investment or brokerage firm. And if you have surplus funds, you are not true to yourself or your dependents unless you do learn what an investment is and educate yourself in all matters financial, even though this education is elementary.

The Business of Investing

Let us suppose that Mrs. Jones lives in Keokuk. Her husband, who was a druggist, accumulated a moderate fortune of ten thousand dollars. He died, leaving his widow with one child about ten years of age, and all his accumulated fortune went to his widow.

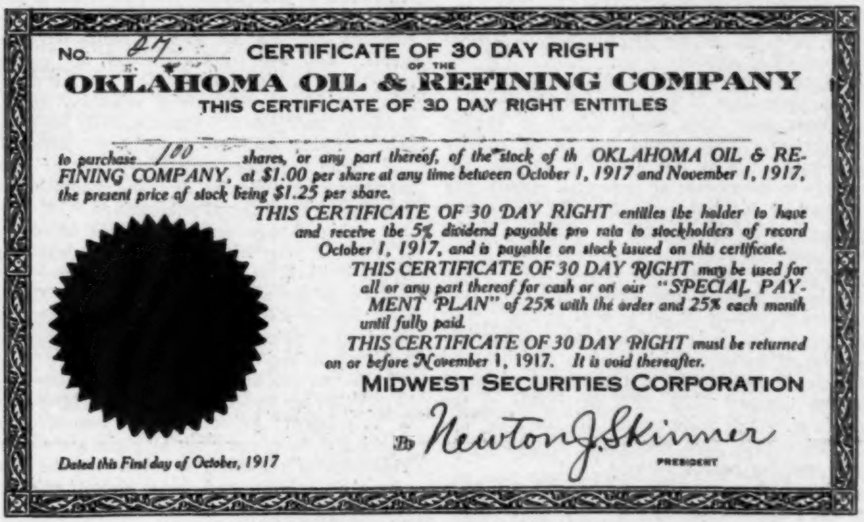
Even though Mrs. Jones had neglected an elementary financial education, she knew enough to refrain from going into the shoe business on Main street of Keokuk. She did not know anything about the shoe business and would not jeopardize her capital, for she knew of no means of getting it back if lost.

But there are thousands of Mrs. Joneses all over this country who are willing to "invest" their capital in the Acme Oil Co. or the Bonanza Mining Co. simply because some broker (?) sends them an attractive circular.

And the Business of Investing is a thousand times more difficult to learn than the business of selling shoes.

In the former articles of this series, the writer has endeavored to show what an investment really is and how the novice should go about investigating and learning. The suggestions have been elementary because it is necessary to lay the ground work of first principles. It is this same phase of education which the incipient investor must absorb before he or she risks one dollar.

Educated men, even in the ministry and law, will study the theory of economics, will dig into the intricacies of bi-metallism and the study of the gold reserve, but will "fall" for the first attractive circular of a new oil venture without knowing one thing about it. Reader, do not imagine that you are above this class of citizen. Unless you know the elementary psychology of the fake stock promoter, you are not insured against loss.


No. 27
CERTIFICATE OF 30 DAY RIGHT
OF THE
OKLAHOMA OIL & REFINING COMPANY
THIS CERTIFICATE OF 30 DAY RIGHT ENTITLES

to purchase 100 shares, or any part thereof, of the stock of th OKLAHOMA OIL & REFINING COMPANY, at $1.00 per share at any time between October 1, 1917 and November 1, 1917, the present price of stock being $1.25 per share.

THIS CERTIFICATE OF 30 DAY RIGHT entitles the holder to have and receive the 5% dividend payable pro rata to stockholders of record October 1, 1917, and is payable on stock issued on this certificate.

THIS CERTIFICATE OF 30 DAY RIGHT may be used for all or any part thereof for cash or on our "SPECIAL PAYMENT PLAN" of 25% with the order and 25% each month until fully paid.

THIS CERTIFICATE OF 30 DAY RIGHT must be returned on or before November 1, 1917. It is void thereafter.

MIDWEST SECURITIES CORPORATION

By Newton J. Skinner
PRESIDENT

Dated this First day of October, 1917

New and Novel Method of Selling Stock

The Safety of Principal

No real investor will buy a security whose value is in any way doubtful. The stock or bond of stable value is the only kind that interests him. He wants to feel that the principal is reasonably safe and that, barring market fluctuations or world wars, he may sell it without loss in the event of necessity. If he is satisfied with the safety of his principal, he will sacrifice a large return in interest.

The interest return, however, must be based on the condition of the times. Back in 1902 anything over 4½% was thought to be on the verge of speculation, but today different conditions prevail and in 1917 there are excellent investments yielding from 6 to 8%. Therefore, the rate of interest cannot be taken as a

criterion to differentiate between an investment and a speculation.

The big financial institutions, insurance companies, banks and trust companies are the big investors of this country. Executors and trustees, the fiduciaries who holds funds for others, are also big investors. These big investors demand *safety* before any other consideration. That must be your first thought in making an investment—Safety!

The Psychological Appeal

It is true that we have steadily been educating ourselves in financial matters, but the prevailing psychology to induce an investor to buy stock in a speculation is the same today as it was in 1902, when Edward Sherwood Meade, Ph.D., wrote:

"Here are the principal inducements offered to the speculator in every new enterprise:

"Other men have made money in similar enterprises. Why should not he be equally fortunate? He is not asked to gamble, but merely to investigate an industrial opportunity and act as his judgment directs. He is carried away by the prevailing optimism of the time, and he is ready to listen to the advocates of new schemes for getting rich. Other people are making money fast, and he is certain of his ability to do as well as they. The appeal to his 'judgment' and his 'courage' is the bit of flattery which is often decisive, and the final outcome is that the man of small means 'invests' $100, $200 or $5,000 in the stock of a new company in the confident expectation that from this small investment he will one day reap a fortune."

The chances are that the harvest will be a ream of worthless or near-worthless stock certificates.

Speculator or Investor?

This series of articles is for the investor. The speculator has his individual field and he is a great asset to any young country. It is a doubtful question which is the more beneficial to a growing country, the speculator or the investor. But speculation is even a greater science than investment and must be left to the professional. Every man with a surplus dollar should be an investor, but the speculator is a specialist. His gains are rightly large because his losses are in proportion. The speculator must be in a position where he can afford to lose; the small investor is never in that position.

It has been argued that it is beneficial to a country to have speculative experiments tried at the expense of the venturesome. This argument may or may not be right, but the investor can readily see that the only way it should affect him is to evolve an investment from what was originally a venturesome speculation.

Continuous Supervision

There is another well-known psychological phase about the investor which demands comment. Once an investment is made the investor is apt to forget about it.

Outside of having his holdings periodically examined and judged, there is much that every investor ought to know to help himself. Here are a few of the suggestions:

1. If a stock, have it transferred to your name, or, if a bond, at least have the principal registered in your name. If this is done, you will be the recipient of all notices from the company and will be able to study developments. You will receive proxies for voting, reports of earnings, notices of special meetings, certificates representing valuable "rights" if issued, and you will unconsciously compare your company with its competitors.

2. Read the quotations of the sales of your investments as often as they are shown in the newspapers or financial publications. The fact that a big change suddenly occurs either up or down in your investment means something which is likely to affect its value. It is time for you to get after the facts at once. Many New Haven Railroad investors never noticed the drop in price of their stock until the loss had become serious.

3. When you are mentally satisfied that you have made an honest mistake in judgment in an investment, do not deceive yourself into thinking it "may come out all right some day." This plan of reasoning is much like the man who plays solitaire and cheats himself to make the cards come out right. Switch into something else and the chances are you will be right the second time, for the lesson of the first will have been a liberal education.

Conclusion

Whether you are rich or poor, if you are an investor or need to be an investor, educate yourself before making the first step.

Do not be deceived by the prospectus or circular of a new promotion. Learn to develop the character of a professional buyer and you will be able to meet the Svengali hypnotism of the stock salesman who offers a speculation.

Learn what an investment really is. Ask the questions which have been outlined in this article and as many more as you can think of and be able to understand the answers to these questions and to pick the flaws in the salesman's reasoning, if there are flaws.

Do not become a speculator when you are by habit and position an investor.

Keep constant track of your investments.

Readers' Round Table

[Subscribers are invited to contribute to the Readers' Round Table Department. From our readers we receive many valuable suggestions and interesting ideas, and have inaugurated this feature in order that they may present their problems and their thoughts to their fellow readers. We believe that this interchange of ideas will prove to the advantage of all. Send in your manuscript addressed to Editor, Readers' Round Table. No names will be used unless permission is given.—*Editor.*]

Should Traders Use Stop Orders?

Two Points of View—How Stops Are Used by Experienced Operators—Their Value to the Inexperienced.

Editor, THE MAGAZINE OF WALL STREET:

THE writer's attention was recently called to a treatise on the use of stop loss orders in active trading, in which it was sought to show that their use was futile, and that loss limitation in trading was impossible. Further, the author characterized stop loss orders as "a snare and a delusion."

In the first place, the term "stop loss order" is a misnomer, since the stop order, when properly used may be closing a trade at either a profit or a loss, or may be opening a new trade.

While no exact statistics were presented, the writer of the article apparently takes it for granted that eight out of every ten stop orders are sooner or later executed. Some "authorities" were quoted as saying that in their opinion fully 99% of all such orders get caught.

He cites a supposed operation in Crucible to prove his contention. An arbitrary stop limit of 1½ points (1¾ net) was selected. He assumes that the stop will be caught and that the trade will be one of eight losing trades in ten attempts. To quote verbally, "the stop will be caught almost as surely as a snowball will melt if thrown into the Amazon," after which the stock will go back again, leaving the trader with little to console him for his supposed prudence.

On the basis of eight losing trades in ten, he reckons that the trades will have accumulated sixteen points in losses, or even more, as stops may not all be executed at stop figures. Also, that about the best the trader could expect from his two successful trades would be enough profit to offset the amount of loss sustained in the stopped-out trades.

It is his opinion that the trader, if he possessed a sufficiently keen market judgment to trade with success with any plan, would be better off if he had put in a sixteen point stop on his initial commitment and sat still until it finally went his way. By doing so he would have saved five points in commissions, taxes, the odd-lot broker's pickings (if he traded in odd lots) as well as some possibly bad executions—altogether a fairly good profit in itself. Under this plan, a serious paper loss might be sustained and yet the trade might still come out with a good profit.

This is all very good as far as it goes, but it goes too far and presumes too much. He assumes at the outset that the eight losses will be for the full amount of the original stop, 1¾ points net. I have had some trading experience in my time, but I have never known a series of losing trades to run into eight in a row, where stops were used, without some profit appearing on one or more trades before stop price was reached. I should say offhand that every other trade, at least, would show some "daylight" to the trader, sufficient in most cases to enable him to adjust his stops so as to reduce the amount at risk. To assume that this extraordinary number of full stop losses would be encountered over a long period of trading shows a lack of practical information on the subject.

There should be a reason for the use of stop orders or they should not be used. The general attitude toward stops is that they furnish insurance against serious loss in any one transaction that might impair the trader's capital. But the particular usage for stops, and the factor which makes their use a practical aid to success in active trading, is to place the stop order at a point, which, if reached in any movement of the stock contrary to the one expected, would serve to modify the trader's original opinion as to the immediate trend direction.

To select a concrete example from recent markets. Around par Steel common showed considerable resistance to its declining movement. Breaking par, it finally sold at 99⅛, rallied sharply to 101¼, dipped to 99¾ the next morning, and came back quite as rapidly

to 101⅝. A trader, exercising good market judgment could have purchased Steel when it broke par the second time, with stop at 98¼, or if he did not wish to "buck the trend," he could have waited until it rallied the second time and went through the earlier stopping place at 101¼, going long by buying on stop at 10½. The stop should be just under the low, as in the case of the other trade.

Supposing that he were to make the two trades, having had good reason for entering in both instances. On the first trade he would have about one point at risk; in the second, about three points. The average risk was two points. Steel had declined about fifteen points in as many days, and had given indications of a turning point for a normal rally, say of six to eight points. He was working for a swing three to four times the amount at risk, with the odds in his favor.

Steel rallied thereafter to 106⅜, and backed away from it. The trader, realizing that a good part of the expected movement had already come, might have sold his long Steel on the subsequent rally back to 106¼, and taken the short side with one lot, with stop, in this case, as close as 106½. Had he done so, he would have "cinched" a good profit on two lots of long stock, and later been stopped out of a lot of short stock with one-half point net loss. At the same time he would have been operating according to good trading principles, which, if adhered to, and backed by the necessary trading experience, and judgment required for success at a difficult undertaking, he should be able to make money consistently at active trading.

Further along in the article, the writer states that to have any success in the use of stops one must not only be right on the trend of the market, but also right in his guesses of the small fluctuations. How ridiculous! If one were right always on both, he need never use stops.

Stop orders insure against too great a loss on any individual trade in case the trader happens to be wrong on either the main trend or the intermediate trend.

There is always the possibility that that which has been the intermediate trade may become the major trend. Who can tell before hand, when the change will come? Stop orders do not always protect against large loss, no matter how close to the prevailing price the particular stop may be fixed. Yet the occasions when stop orders will be executed many points away from the stop price are comparatively few, especially so in an active stock, and particularly so in Steel common, which has a continuous one-eighth point market nearly all the time.

Now and again an opening will come when the market opens off or up (mostly, such openings come at lower prices, however) several points, and stops will be executed at the best obtainable price. The wide opening down on the morning of Feb. 1, of the present year, on the publication overnight of Germany's new submarine policy, was an example of the possibilities when grave developments occur without warning. But these happenings are abnormal, and successful plans must be based on normal conditions. Wide openings, either way, are the fortunes of war and speculation and must be accepted by whosoever engages in hazardous undertakings.

No sane trader will attempt to "guess" the small fluctuations. Once he makes a commitment he will resolve in his own mind, whether his stop is in with his broker or not, that if his stock goes to a certain price, before going in the anticipated direction, that he would rather be out of it than in. Once, however, it begins to go his way, he will follow it with a stop, successively raised or lowered, as the case may be, below or above such resistance points as may be established by the stock itself in its movement. When danger appears, regardless of the stop, he will jump off "at the market." When, after a goodly movement, a quick bulge or drop comes, he will become suspicious of a continuance of the movement, and will bring his stop up or down to a point close to the extreme of the move, in order that in a sudden turn he will not lose any large portion of his good paper profit. If an arbitrary stop is used at the beginning of a trade, it should be moved forward as opportunity is afforded to do so by the action of the stock.

But it is truly futile to theorize about the use of stops. The market is the proper place to test out all ideas concerning trading. No one's say so is as valuable as actual trading experience.

For the chap who wants to learn the business of trading in stocks, the stop order is as essential as capital. He may not be able to make money at once by its constant use, but he will get a much longer run for his money and far more opportunities to learn from actual experience how to attain success than if he attempts to operate on judgment or information without employing the principle of loss restriction. The latter, by the way, is a much better phrase describing the use of stops than "loss limitation."

But he should not expect too much from stops. In themselves they are but tools to work with, the same as capital and graphic aids. A stop order is very much like a hat—both need a head to become useful.

Yours sincerely,

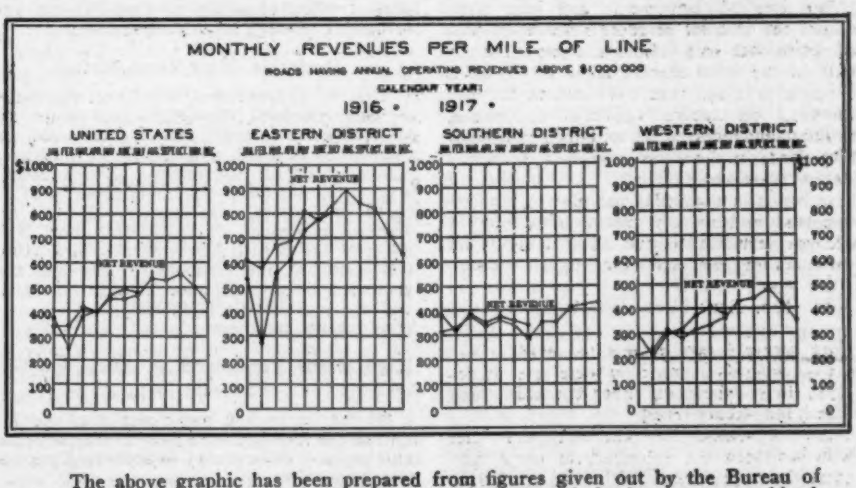
T. S.

Leading Railroad Preferred Stocks

Showing Authorized Dividend Rates, Dividends Paid, Margins of Safety on a 5-Year Basis, Prices for Last Two Years, and Current Yields

	Authorized Div. Rate	Present Div. Rate	Times Earned 5 yr. Aver.	1916 High	1916 Low	1917 High	1917 Low	Recent Price	Yield on Price
Atchison R. R. pfd.	5%	5%	4.06	102	98½	100½	90⅛	84¾	5.89%
Baltimore & Ohio R. R. pfd.	4	4	4.99	80	72½	76⅞	60	61	6.55
Chicago, Gt. Western pfd.	4	0*	0.00	47½	33	41¾	21	22	0.00
Chic., Mil. & St. Paul pfd.	7	7	1.75	136⅛	123	125½	86½	88	7.95
Chic. & North Western pfd.	7	8	7.82	176	165	172½	140½	142	5.63
Colorado & Southern 1st pfd.	4	4	4.15	62⅛	46	57½	46	47½	8.42
Colorado & Southern 2d pfd.	4	4	3.15	57¾	40	46	41	44	9.09
Denver & Rio Grande pfd.	5	0	0.00	52½	15	41	12	13½	0.00
Erie R. R. 1st pfd.	4	0	0.00	59⅛	46	49¼	25	24¾	0.00
Erie R. R. 2d pfd.	4	0	0.00	54½	40	39¾	20	18½	0.00
Kansas City Southern pfd.	4	4	1.76	64⅞	56⅝	58½	49¾	48¾	8.20
Minn., St. Paul & S. S. pfd.	7	7	4.82	137	128½	127	114	108	6.48
Norfolk & Western pfd.	4	4	1.37	89⅛	84⅛	89½	80	82½	4.84
Reading R. R. 1st pfd.	4	4	9.4	46	41⅞	45	35	37½	10.66
Reading R. R. 2d pfd.	4	2	5.4	52	41¼	45½	35	36	5.55
St. Louis Southwestern pfd.	5	0	1.27	57	37½	53	39	37¼	0.00
Southern Ry. pfd.	5	5	1.97	73½	56	70½	51⅝	57½	8.69
Union Pacific pfd.	4	4	8.80	84½	80	85	75	74½	5.36

* Divs. in arrears 9%.



The above graphic has been prepared from figures given out by the Bureau of Railway Economics, and shows the net revenues of all roads in the country combined, and for each of the three general groups, down to the end of July. It will be seen that up to that date net was holding its own well with last year. In August and September, for which only scattered figures are as yet available, it is probable that net was slightly less than 1916.

The Southern District is making the best and most consistent showing. The net for Western roads began to drop in July and is now probably below last year. But it is the Eastern roads that are suffering the principal losses.

On the whole, and even after allowing for somewhat poorer results in August and September, the showing is far from a bad one—for it is to be borne in mind that 1916 was a profitable year for the roads. It is chiefly the Eastern roads which need relief by higher rates.

Bond Inquiries

A Speculative R. R. Bond

H. L. D., Washington, D. C.—Seaboard Air Line Adjustment 5s must be regarded as quite speculative, and the issuance of the First and Consolidated Mortgage adversely affected the bonds. The equities back of them, however, are constantly increasing and we do not believe there is any danger of a receivership for the road. Earnings are now running at a higher rate than they did last year. The gross revenues for the twelve months ended June 30th were $28,177,897, and the operating income $7,677,219, against gross revenues of $24,405,926 for the twelve months ended June 30, 1916, and operating income for that period of $6,960,176. For the six months ended June 30, 1917, the final net, after taxes and uncollectible items, as reported to the Interstate Commerce Commission, was $3,985,440, against $3,889,970 in the previous year. The Seaboard Air Line covers a good territory and there is no reason to fear that its traffic will not return to a very profitable basis after the war is over. The difficulty since the outbreak of the war has been that exports from Southern points have been severely curtailed.

You would be unwise to sell your bonds around the current price for eventually they should recover and besides the present conditions of the bond market make it unwise to liquidate holdings that have substantial possibilities for future appreciation, because outside influences and technical considerations render the present market a very poor one on which to liquidate. The market for these bonds in particular has always been unsupported and a very discouraging one for holders. It has also been affected in the last two years by heavy sales for English accounts.

Mo. Pac. Gens. Unattractive

R. L. S., Troy, N. Y.—Missouri Pacific General Mortgage 4s and 5s must be given a very speculative rating, and their price is subject to wide fluctuations. The General Mortgage 4s are not secured upon the entire property of the company covered by the First and Refunding Mortgage, but are a lien subsequent thereto. This makes them subject to the $46,923,000 First and Refunding 5s, and to the prior liens thereto aggregating $132,933,500. This issue is the most junior lien on the entire property of the company. We do not favor these bonds, and if you are a holder, believe the money could be employed to better advantage.

Anglo French vs. Liberty Bonds

B. H. H., Lancaster, Pa.—It is largely a matter of opinion as to the position of the belligerent European countries in the event of a war which is prolonged over the next two years. At all events, we do not recommend the purchase of the Anglo French 5s for a savings investment. There is a certain degree of speculation in these bonds. If you desire perfect safety, put your money into U. S. Government bonds. The Liberty Loan is the best investment in the world, and a stable market is assured for it.

Reasons for Not Buying Speculative Bonds of New Enterprises

B. P. Y., Noble, Ont., Canada.—Land Oil & Transport Corporation First Lien Collateral 7% Gold notes we do not regard with favor. These notes are secured by the company's 10-year 6% debentures which latter, in themselves, do not make the notes sound. The main trouble with the safety of the collateral is that it comprises obligations of companies, which can not be considered established concerns. The acreage is scattered and is largely undeveloped. Although there is no denying that great potentialities lie in the future development of these properties, there are many factors which contribute to make the bonds extremely speculative. Hence, we advise you to sell them without delay. It is poor policy to buy or hold a bond of this character in a time like the present when securities of tested merits can be bought on such an attractive basis.

Desirable Short Term Notes

J. G. S., Palmertown, Pa.—Great Northern, 3 year, collateral trust, 5% gold notes are backed by the splendid record of this old and established railroad, and are to be considered a safe short term investment. There is always a good market for them. Bethlehem Steel secured, gold notes, due February 15, 1919, are secured by deposit of $37,600,000 short term notes of the British Government and $25,000,000 bonds of the company. They are also protected by a substantial margin of safety and are entitled to a good rating. There is a good market for them.

High Grade Bonds and an Attractive Second Grade Issue

Of the bonds and notes you hold the following are high-grade in most every particular and we have no hesitancy in according them an excellent rating:

Ark. & Memphis Bridge & Term. Notes due	1918
Allentown Gas Co. 1st mtge 5% due	1924
Carolina, Clinchfield & Ohio 1st mtge 5% due	1938
Central of Vermont 1st mtge due	1920
Northern Pac. Prior Lien 4s due	1997
Northern Pac. General Lien 3s due	2047

M. J. H., Montpelier, Ohio.—Virginia Carolina Chemical conv. deb. 6s due 1924 cannot be ranked in point of security and market stability with the foregoing, but we regard them as among the best of the second grade bonds.

PUBLIC UTILITIES

The Consolidated Gas Crisis

Company Contending with Adverse Conditions — Millions Put Into Property in Past Have Increased Efficiency — Equity in N. Y. Edison—Will It Enable Company to Maintain 7% Dividend?

By FRED L. KURR

WHAT is the matter with Consolidated Gas? Why should this seasoned investment stock be selling at a lower price than recorded at any time since the panic of 1907?

The answer is higher operating costs, with no corresponding increase in the price of the company's product. In this respect Consolidated Gas is in the same boat with most of the public utility concerns in the country. It is an unfortunate condition of affairs and beyond the power of the company's management to control.

Consolidated Gas, however, is in remarkably fine shape to withstand a period of adversity. For years it has put huge sums into plant improvements and as a result the operating efficiency has steadily increased. In 1916, for example, the company felt to a considerable degree the increased cost of materials, labor, etc., yet because of operating economies it was able to make the best report in its history, with the single exception of the year 1915.

Increased Costs

It is true that the company has a still heavier burden to bear in the way of increased costs in the current year. The most important item that will make for increased expenses is the higher rate that will have to be paid for water gas oil. About 120,000,000 gallons of this oil is used by Consolidated Gas per year. The company's requirements were contracted for up to the first of this year at a very reasonable price, but in renewing the contract an increase of about 2 cents a gallon was made. This will add approximately $2,400,000 a year to costs, which is equal to $2.40 a share on the $99,816,500 capital stock outstanding. Higher costs of labor and other materials will add still further to the burden of expenses.

The Public Service Commission on October 13 ordered the gas companies to change from their present standard to a 650 British thermal unit standard, or to sell gas of lower B. t. u. content than 650, the price to be reduced in proportion to the reduction of the heat units from the 650 standard prescribed. The present standard of gas is 22 candlepower. President Cortelyou, October 24, asked for a rehearing and that the order of the commission be vacated and set aside.

Consolidated Gas has a strong card to play in seeking more liberal treatment. When the Supreme Court ordered the reduction of the price of gas to its present 80 cents per 1,000 feet, it recognized the right of the company to realize 6% on its investment. The management contends that the rate proposed by the Public Service Commission does not permit a 6% return. It is quite likely, therefore, that the company will be able to get more liberal treatment.

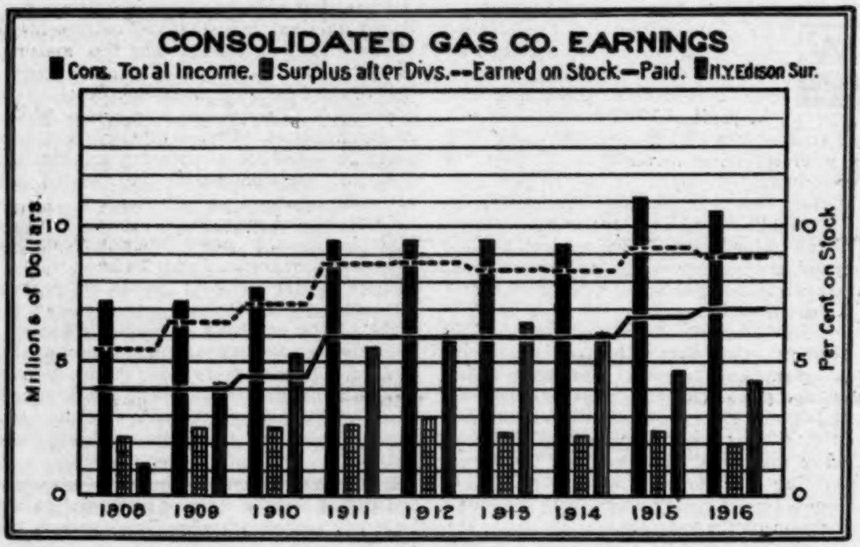
TABLE I—HIGH AND LOW PRICES OF CONSOLIDATED GAS

	High	Low		High	Low
1917....	134⅝	83	1908....	167¼	96
1916....	144¾	129¾	1907....	140½	74
1915....	150½	113¾	1906....	181¾	130⅝
1914....	139½	112½	1905....	214	175
1913....	142⅜	125⅛	1904....	220	185
1912....	149½	135¾	1903....	222	164
1911....	148½	128¾	1902....	230¾	205
1910....	160⅝	122½	1901....	238	187
1909....	165¼	114½			

An important point to consider in studying the possibilities of this company is its large and valuable equities in other companies. Table II shows the interest Consolidated has in other gas and electric companies operating in New York and vicinity. The New York Edison Co., which supplies New York with most of its electric light and power, is the most important subsidiary. It will be noted that practically all the stock is owned by Consolidated Gas.

The income received by Consolidated Gas from these controlled companies in dividends is considerably less than their surplus earnings. This is where the so-called hidden earnings of Consolidated Gas come in. For example, the New York Edison Co. in 1916 paid $4,616,738 out in dividends to the parent company out cf a surplus of $8,985,539, so that the undivided surplus for the year was $4,368,801. Consolidated Gas for the year ended Dec. 31, 1916, reported earnings equal to 8.99% on its stock, which did not include the above-mentioned undivided surplus of the New York Edison Co. This

Including the equities in controlled companies, assets of Consolidated Gas can be conservatively placed at $200 a share on its capital stock. This places the company in a very favorable light from the point of view of the long pull investor. The Supreme Court, as already stated, has admitted the right of the company to earn 6% from its gas business. Earnings from the New York Edison Co. can be counted on to show another 6%, even under adverse conditions. Thus if the company is to receive the treatment that the courts say it should receive, it would appear to be in a position to main-



undivided surplus is equal to an additional 4.3% earned on the stock. The undivided surplus earnings in the other properties controlled is equal to about 1.5% additional. It can be seen, therefore, that the earnings of all the properties combined was equal to close to 14% on the stock of Consolidated Gas, or about twice its present dividend requirements.

Earnings

The accompanying graphic shows the earnings of Consolidated Gas over a period of years. The undivided surplus, together with the undivided surplus of the New York Edison, shown separately, strikingly illustrates the millions that have been poured into the property in the past decade. This has put plant and equipment in wonderful shape and the companies in strong financial condition.

tain its present 7% dividend indefinitely. The matter is now up before the Public Service Commission, and much will depend on the decision of that body as to what earnings the company will show in the next year or so.

Dividend Record

Consolidated Gas has a very enviable dividend record. In 1893 7% was paid. In 1894 the dividend was increased to 8% and maintained at that rate until 1899, when it was reduced to 5%. In 1900 it was increased to 6% and in 1901 to 8%. This rate was maintained until 1906, when it was again reduced to 5%. In 1907 it was further reduced to 4%, which rate was maintained until 1910, the stock then going on a 6% basis. In 1915 it was placed on a 7% basis, and this rate has been maintained up to the present time.

Consolidated Gas is capitalized with $24,846,772 bonds and $99,816,500 stock. The controlled companies have a bonded debt of $93,557,884. The only important financing done by the company in recent years was $24,846,248 of 6% debentures, which were put out in 1915. These bonds are convertible into stock at par from Feb. 1, 1918, until maturity, Feb. 1, 1920.

At present prices of around 85 the stock appears to offer very attractive possibilities the justice of a more liberal policy toward the company, and in that case a continuance of the 7% dividend would be assured.

Position of Securities

Under present conditions in the stock market and the public utility field generally it would not appear that the stock is very attractive to the speculator looking for a quick turn. For the permanent investor, however, it seems an investment of merit to the long pull investor. It is quite possible that no reduction in the dividend rate will occur, but should a reduction be found necessary it would be only of a temporary nature, since under normal conditions the company can earn its present 7% dividend with a very substantial margin to spare. There are very fair prospects that the Public Service Commission will be made to see and will in all probability work back to the prices it has commanded in the past as soon as the special conditions due to the war are removed.

Table I shows the high and low prices of the stock over a series of years. In no year since the panic of 1907 has the stock fallen under 112, and in the past fifteen years it has never failed each year to sell up to around 140 or higher.

Consolidated Gas has always appealed to investors because of the stability of its earnings. It is not affected to any great extent by hard times. It is now passing through a period of the most unfavorable conditions that it has ever met in its history. Conservative management and millions spent on the property will enable it to pull through all right.

The convertible 6s may be considered one of the highest grade industrial bond issues on the market. At present prices, near par, the yield is 6%, and in addition there is the possibility of a good profit to be made because of the convertible feature.

TABLE II—COMPANIES CONTROLLED BY CONSOLIDATED GAS

	Stock Held Par Value		% of Total Stock Issued	
	Common	Preferred	Common	Preferred
New York Edison Co.	$65,953,717	....	99.98	.....
Astoria Light, Heat & Power Co.	10,000,000	....	100.00	.....
New York & Queens Elec. Light & Power Co.	1,010,000	$797,300	80.80	63.78
New York & Queens Gas Co.	600,000	....	100.00	.....
Municipal Lighting Co.	43,800	....	100.00	.....
N. Y. Mutual Gas Lighting Co.	1,886,200	....	54.88	.....
New Amsterdam Gas Co.	12,154,592	8,991,475	99.91	99.91
Standard Gas Light Co.	4,796,200	4,096,100	96.20	95.30
United Electric Light & Power Co.	3,654,146	1,641,888	99.40	99.58
Westchester Light Co.	10,000,000	2,500,000	100.00	100.00
Yonkers Electric Light & Power Co.	200,000	....	100.00	.....
Edison Light & Power Inst. Co.	1,216,400	....	.....	.....
Empire City Subway Co.	518,500	....	.....	.....
Bell Electric Tel. Co.	129,000	....	.....	.....
Held by New Amsterdam Gas Co.:				
Central Union Gas Co.	3,500,000	....	100.00	.....
Northern Union Gas Co.	*1,500,000	....	100.00	.....
Held by N. Y. Edison Co.:				
Consol. Tel. & Tel. Subway Co.	†1,869,000	....	99.71	.....
Brush Elec. Illum. Co.	999,000	....	100.00	.....

*Includes $760,000 owned by Central Union Gas Co.
†Includes $200,000 owned by United Elec. Light & Power Co.

Public Utility Notes

American Gas—Has made an important addition to its profit-making resources in starting the first 30,000 k. w. unit of the big Windsor plant, which ultimately will develop six units of 30,000 k. w. each, or a total of 180,000 k. w.

Am. Telephone & Telegraph—Balance sheet, Sept. 30, 1917, shows profit and loss surplus $84,502,135, including capital stock premiums and excluding debt, discount and expense, compared with $79,002,166 Sept. 30, 1916. In the eight months to Aug. 31, 1917, Bell system expanded gross receipts by $22,729,222, or 13.2%. In the year to Dec. 31, 1916, American Telephone had gross income of $270,400,892. The rate of gain in gross promises the addition of $30,000,000 of new revenue for the entire year. That would mean receipts of $300,000,000 for the system, compared with gross of but $128,579,800 in 1907.

Boston Elevated—Has refused the request of the carmen's union for a voluntary increase in wages, because "it hasn't the necessary money." The dividend due to be declared Oct. 29 was passed.

B. R. T.—Operation of the 14th St.-Canal St. section of the Broadway, Manhattan, subway has proved more satisfactory than has been expected by B. R. T. interests. Since Sept. 4 receipts at Broadway stations have added about $1,100 a day to the system's revenues. This showing presages a substantial addition to profits when the Broadway subway is placed in operation from the Battery to 42d St. about Jan. 15, 1918.

Cities Service—Announces that September earnings exceeded the results of May, June, July and August, and September, 1916, by $872,907, or 121%. Gross earnings for the 12 months were $18,169,849 and balance for the common was $14,287,976. The company earned its pfd. dividend 5.02 times, compared with 3.49 times.

Commonwealth Edison—Refuting rumors of dividend reduction is report: "Company has its own coal mines, and earnings are so much in excess of increased expenses that stockholders can feel assured there is no likelihood of any changes in dividend rates. Present net earnings are in excess of last year."

Consolidated Gas, N. Y.—Has asked for a rehearing of motion of commission regarding change in the standard of gas from 22 candlepower to a British thermal unit standard.

Interborough Con.—August net $445,195 showed an increase of 23% over August, 1916. Gross increased 7%, and eight months' net represented a gain of 33% over the corresponding period last year.

Mass. Gas—Combined net earnings available for dividends of subsidiaries for September were $450,737, an increase of $187,828, or 71.94%, compared with the corresponding month in 1916.

Pac. Telephone & Telegraph—Reports August earnings $1,727,742 and gross for eight months $13,933,691. The latter figure is an increase of only $696,458 over the 1916 period. August earnings show a decrease of $52,990 against August, 1916.

Peoples Gas, Chicago—Investigation of the gas situation, with a view to bringing court action, has been ordered by Corporation Counsel. Lower candlepower gas is alleged to be supplied to north side consumers than is permitted by the ordinance.

Philadelphia Co.—For its current fiscal year should show a large addition to net. In 1916-17 year surplus after charges was equal to 12.44% for the $42,943,000 common after taking out the small pfd. dividend. In the new year it is likely that the common share dividend balance will exceed 15%, or $7.50 per share.

Phila. Rapid Transit—Gross business ran at about an even level in the first three months of the current fiscal year, September receipts of $2,419,584 ranging within $18,000 of those for August and for July. The ratio of expenses to gross earnings was 57.4% in September, compared with 54.4% in September, 1916. Company earned 9.3% on its stock in the fiscal year.

South. Cal. Edison Co.—According to officials, substitution of water power will release annually more than 600,000 barrels of oil for other uses. The company, in addition, will save $1,000,000 annually, paying the cost of recent improvements in two years.

Union Gas—Earnings for quarter ended Sept. 29, 1917, were almost $50,000 in excess of earnings for the same period of 1916. Gross for the quarter in 1917 was $604,546, against $557,149 the previous year.

United Gas—For the quarter ended Sept. 30 reported sales of gas amounting to 2,510,387,020 cu. ft.

Western Union—Gross earnings for August were $7,030,016, an increase of $1,534,024 over August, 1916. The eight months' gross is $49,187,097, an increase of $10,154,681 over 1916.

Public Utility Inquiries

Averaging on Consolidated Gas of New York

A. B. B., Pittsburgh, Pa.—Consolidated Gas of New York's decline may be attributed chiefly to the fear that the dividend will be reduced. This fear has been engendered by the thought that operating costs are rising so rapidly in the face of fixed charges for service, that the company, despite its strong financial position, cannot conservatively continue dividend payments at the rate of 7%. But, aside from any consideration of a possible dividend reduction, it must be borne in mind that the market for the stock has been influenced sentimentally by the very unfavorable situation existing in the market for utility stocks in general. The recent action of the Peoples Gas Co. of Chicago in passing the dividend had a particularly depressing effect on Consolidated Gas stockholders. As long as the war continues the company is faced with continued high cost of materials, fuel, labor, etc., and it is conceivable that its position would become such that it could not maintain a dividend of over 5%. That, of course, is taking a very gloomy view of the situation, but the times are so uncertain that investors should be prepared for all contingencies. We hardly suggest that you average up on your stock until the outlook becomes more clearly defined, but we might say that you could profitably invest in the convertible bonds of the Consolidated Gas Co. and thus put yourself in a position to participate in any future advance in the stock, to above 100, which might result from a distinct improvement in its affairs. At the same time you would have a security which would be less subject to continued unfavorable developments, for the Consolidated Gas bonds are now selling on an investment basis purely.

American Light & Traction Overdiscounts Unfavorable Factors

G. F. G., Detroit, Mich.—American Light & Traction earnings' position is not one to cause alarm about the dividend. The decline in the stock has been due rather to the necessity for a readjustment in its market price to bring it in line with other high grade public utility investment issues. The prospect that the dividend will be passed is a remote one. If unfavorable conditions under which public utility companies generally are operating, continue for much longer, it is not likely that American Light & Traction will be forced to reduce its dividend payments. But the utility companies are seeking relief in the way of advanced rates and it is also noteworthy that the Government price fixing program will benefit them for it will enable them to get materials such as steel, coal, etc., at lower prices. The American Light & Traction Co. is in a strong financial condition and we are inclined to the opinion that the stock has rather overdiscounted the unfavorable factors in the situation. We suggest that you hold.

Telephone Stock Investments

M. S. B., New Haven, Ct.—American Telephone & Telegraph is a high-grade investment issue, and is so well protected by equities and earnings that your principal and income may be regarded as safe to all intents and purposes. New England Tel. & Tel. is an investment stock of good standing, although it does not rank as high as American Telephone & Telegraph. Provided you are willing to hold this stock indefinitely, we can see no reason for your selling it now although the price may go considerably lower if there is a further depression in the general market.

Brooklyn Rapid Transit's Dividend Endangered

W. L. H., New Orleans, La.—Brooklyn Rapid Transit has an obligation of $57,735,000 5% notes coming due July 1, 1918. There is considerable apprehension as to the ability of the road to take care of this maturing obligation. If present stringent conditions in the investment market continue in effect, the company may have to take drastic measures in order to protect itself. This possibility promotes the fear that dividends will have to be reduced. Under the circumstances we cannot recommend it as a purchase and although we hesitate to advise anyone to take a large loss in the stock, we must say that if held the owner should be in a position to assume the risk of a considerable further decline.

Twin City Rapid Transit's Dividend Safety

H. T. B., Quincy, Ill.—Twin City Rapid Transit has declined recently, very largely in sympathy with the general market and with the marking down of values in public utility stocks in particular. Dividends of 6 per cent. per annum have been paid on the common stock since 1910, and the margin of earnings over this dividend have steadily increased. Last year the company earned 9.22 per cent. as compared with 6.83 per cent. in the previous year and 8.05 per cent. in 1914. Earnings this year have been affected by very greatly increased operating costs, but we do not consider the dividend in jeopardy so far as the immediate future is concerned at least. The Government's regulation of prices for iron and steel products and other materials entering into the construction accounts of such companies should prove beneficial to Twin City. In the last annual report of the company President Lowry said that the strength of the company lies in the excellent physical condition of its property. The company has had some labor trouble, but that has been settled. We advise you to hold the stock, particularly if you would have to take a large loss in selling it now.

MINING AND OIL

One of Sinclair Gulf's Steel Tankers

Sinclair Gulf—What Is It Worth?

A Company Which Has Not Realized Expectations—Its Shrinkage in Market Values—An Opinion on Its Present Security Prices

By CAMERON ROBERTSON

ON January 9, 1917, the Sinclair Gulf Corporation was incorporated under the laws of New York State, and a few weeks later, "amid great hurrahing and fireworks," its securities were offered to the public and the Sinclair Oil & Refining Corporation stockholders, at what purported to be very low prices. When the Sinclair Oil & Refining stockholders were informed that they could buy Sinclair Gulf stock at $40 a share, the company's circular implied that this was a most valuable right, but long before the recent general weakness in all securities started, the market price of Sinclair Gulf stock volplaned rapidly earthward. Among the many things which shut off the motor of this stock's aeroplane was the collapse in the securities of the senior company, the Sinclair Oil & Refining Corporation.

"Like father, like son," applies in many ways to Sinclair Gulf, for its organization, financing methods, the structure of its capitalization, the reports of its prospects are similar to those of the Sinclair Oil & Refining Corporation.

Capitalization and Funded Debt

The company was formed with an authorized funded debt of $20,000,000 6 per cent. first lien, 10-year convertible gold bonds, dated March 1, 1917, due March 1, 1927. It was announced that $16,351,000 of these bonds were to have been sold to the public. But from the date of offering, March 1, 1917, to date, the largest amounts outstanding were approximately $11,500,000, as given in the aforementioned balance sheet. There is no record that more than $10,625,500 of the bonds were ever sold, and presumably the balance are held by the underwriting syndicate. The bonds are callable as a whole or in lots of not less than $1,000,000 (or in any part, through the sinking fund) at 110 and interest, upon 30 days' notice. They are exchangable at any time into stock, in the ratio of $70 face amount of bonds for one share of stock, but the right of exchange on bonds which have been called for redemption ceases 30 days after the first publication of the notice of call. These bonds are a first lien on all of the securities of subsidiary companies or other property now owned, or hereafter acquired by the corporation, representing properties which Harry F. Sinclair, president of the corporation, states as "having a total appraised value, as estimated by competent experts, in excess of $47,000,000," subject to $3,500,000 purchase money obligations.

The bonds were offered for public subscription at 99½ and interest originally, and later the price was reduced to 99 and interest. On November 1 these bonds were quoted on the New York Curb—offered at 92, no bid. An attempt to get a bid of 85 is reported to have failed on that date.

Sinking Fund Provisions

Sinking fund requirements provide that a minimum amount of 10 per cent. of all bonds authenticated and outstanding must be paid to the sinking fund each year, to be applied semiannually to the retirement of bonds by purchase or call up to 110 and interest. An additional sinking fund provision is based on net earnings, which, if the company had $4,000,000 net in any one year, would provide an additional sinking fund of $1,294,165. According to Harry F. Sinclair's letter, the sinking fund, regular and extra, should result in the retirement of the bonds at par within approximately five years.

The stock capitalization of the company is 1,000,000 shares authorized, of no par, or nominal value, of which 352,941 shares were issued to acquire various assets at the time the company was incorporated; 285,715 shares were is-

sued to be deposited with a trustee for conversion of bonds; 25,000 shares were sold for cash at the time of incorporation, and 336,344 shares were left at that time for future sale. Of this, 200,000 shares were offered to the stockholders of the Sinclair Oil & Refining Corporation March, 1917, at $40 a share. At the present time, approximately 712,879 shares of the capital stock are reported as outstanding.

Only for a brief period since the stock was issued, although in the meantime there have been some fairly strong markets, have the purchasers of Sinclair Gulf stock at $40 a share had an opportunity to dispose of it at a profit. During the nine months since the first issuance of this stock, its highest price on the New York Curb was $41.50, and it has been below $30 for the greater portion of the period since it had an open market. It must not be forgotten that this stock was floated during a period of depressed markets. However, some weeks after its original flotation, nearly all other securities improved, while it went down. When other securities went down after the mid-August depression started, Sinclair Gulf led the procession. The stock was quoted on November 1, 1917, $14 bid, $16 asked, with its lowest sale at $15 on that day, which was also the lowest since the stock was brought out.

Present Market Value

At the original price of 99½ for the bonds and $40 a share for the stock, its outstanding capitalization had a market value of a little above $39,000,000. At present quotations, taking the offered price for the bonds and the bid price for the stock, its total market value, both stocks and bonds, is a little under $19,000,000. This shrinkage is in the face of a statement made in February, 1917, that at that time the value of the equity for 714,285 shares of stock outstanding in the hands of the public was $38,310,696, or $53.63 per share. The $11,500,000 in bonds and $3,500,000 purchase money obligations were given at par, which indicated that the company's valuation of its securities in February, 1917, was $53,310,696, and since then it has added considerably to its holdings. At the same time, this statement was made by Harry F. Sinclair: "I believe that the earnings for the next twelve months from the producing properties alone may be conservatively estimated at approximately $5,000,000." It will be interesting to note, when the first earnings' report is published, how accurate this estimate is. To quote Mr. Sinclair further: "The properties are capable of greatly increased development, which already is under way. . . . I therefore feel justified in estimating that when this construction is completed, the aggregate earnings of the Sinclair Gulf Corporation, under present conditions in the industry, should be approximately doubled."

Since this prediction by Mr. Sinclair there has been an advance to $2.00 per barrel for Mid-Continent crude oil, with $2.25 per barrel the prevailing price for much of the Sinclair Gulf Corporation's production. The increase in cost of operation has not been as great as the advance in the market price of crude, according to the most reliable information.

It should therefore happen that if there was so much value in Sinclair properties when they were first organized, there should have been great addition to this in the meantime and a considerable accumulation of earnings, none of which have yet been paid out in dividends on the stock.

$5,000,000 a Year?

A survey of the company's properties, however, does not lead to any great optimism regarding the probabilities of earning $5,000,000 a year, and later doubling this. At the time of its incorporation, the company had leases on 7,000 acres of oil and gas lands in Oklahoma and various parts of Texas, of which the most valuable lease was an undivided half-interest in 4,780 acres in the Osage Nation, Okla. This entire lease was originally owned by the partnership known as White & Sinclair, of which Harry F. Sinclair was the junior member. It was sold in entirety to the Tide Water Oil Co. in 1915 for a price reported to have been $6,000,000. A one-half interest in it was purchased in the latter part of 1916 or early in 1917 from the Tide Water Oil Co. by the Sinclair Gulf Corporation, through a subsidiary.

It can be seen that the partnership got whatever profit was obtained from its original sale to the Tide Water interests, but the stockholders of the corporation in the aggregate take all of the risk of holding it now. It is really a valuable property, however, as a large number of prolific wells have been developed on it, but it is extremely doubtful whether it, and its other Mid-Continent properties, are worth the $21,000,000 which Mr. Sinclair stated was the lowest estimate by experts on the value of its Mid-Continent properties at the time of incorporation. The company claims 16,000 barrels of oil daily production from its Mid-Continent leases in February, 1917, but it is to be doubted whether this has been anywhere near its average output from Mid-Continent in the interim.

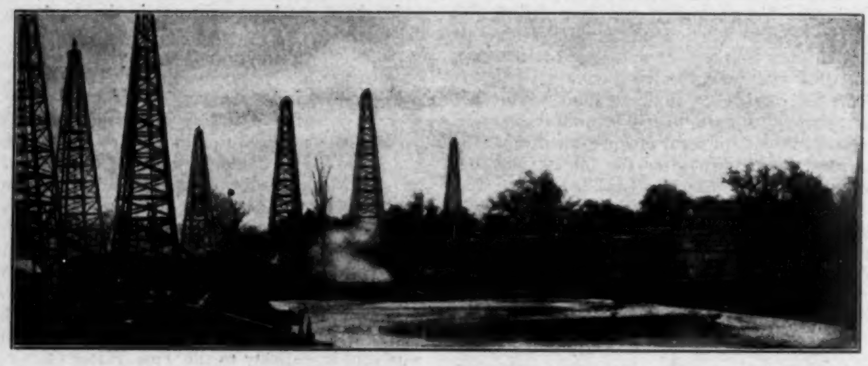
Costa Rican Holdings

Great stress has been laid upon the Costa Rican subsidiaries of the company. The company has concessions covering about 9,000,000

acres of land in the republic, but it is probable that the cost of producing and transporting oil from that country, if it exists in quantity, would require extensive new financing by this corporation, and it is doubtful whether it would be in a position to float any new securities after the rather unfavorable course of its own and Sinclair Oil & Refining's security flotations.

Other properties of the company consist of 250 square miles of oil and gas leases in Mexico, where a developed production of about 150,000 barrels daily is claimed; a refinery and shipping station at New Orleans; a tank ship fleet of 11,000,000 barrels annual capacity; 450 tank cars and distributing stations in various parts of Mexico, Florida and Texas. The company is also reported to be working on a pipe line from Oklahoma to the Gulf of Mexico, and it has exploration rights in Panama, where it will be given the right to sell large tracts for development; also extensive acreage in Cuba. Of all of these holdings, most are probably of small present value, the exceptions being the tank steamers and the Osage Nation leases. The shipping facilities, also the Mexican holdings, were obtained through the purchase and control of the Freeport & Tampico Fuel Oil Corporation.

There is no literature obtainable, either in circulars published by the company, or in any of the statistical books or services, giving any accurate information regarding the New Orleans refinery. It is rather vaguely described in one place, however, as a large modern refinery, with a capacity of approximately 10,000 barrels a day, together with adequate dock and loading facilities, and a steel storage capacity of approximately 500,000 barrels.



Goose Creek Field, Texas—Where Sinclair Gulf Has Acreage

The subsidiaries of the Sinclair Gulf Corporation, include the Sinclair Central American Oil Corporation, which has an authorized capital of 1,000,000 shares of no par value; the Sinclair Panama Oil Corporation, with an authorized capital of $5,000,000; the Sinclair Navigation Co., which has an authorized capitalization of $5,000,000, and the Sinclair Gulf Pipe Line Co., with an authorized capitalization of $3,500,000. The outstanding stock of all of these companies is owned by the Sinclair Gulf Corporation.

A balance sheet submitted after the acquisition of the properties and the exchange and sale of the securities of the company is given in the accompanying table:

BALANCE SHEET OF SINCLAIR GULF

Assets	
Real estate, oil and gas leases and equipment, ships, tank cars, refineries and other investments.....	$47,000,000
Inventories of crude oil...........	2,000,000
Cash in bank.....................	6,435,696
Total	$55,435,696
Liabilities	
Capital stock (equity for 714,285 shares in the hands of the public)	$38,310,696
6% Gold bonds....................	11,500,000
Purchase money obligations.......	3,500,000
Balance due on contracts for ships.	2,125,000
Total	$55,435,696

Analysis of this balance sheet is next to impossible because of its indefiniteness. It must be remembered that the statement is designed

to show the condition at the time the company was formed, and it was several weeks after this that the Freeport & Tampico Fuel Oil Corporation was acquired by the Sinclair Gulf Corporation. Therefore, all of the Mexican properties and the marine equipment of the company probably are not included in its $55,-435,696 so-called total assets. Its inventories of crude oil and cash in bank, amounting to over $8,000,000, might be real enough. In the $47,000,000 for real estate, etc., would be included the Mid-Continent oil lands, on which it would be impossible to set any figure, without an exhaustive geological survey.

Taking Mr. Sinclair's valuation of $21,000,-000, however, that would leave $26,000,000 as the valuation of other properties which would include the entirely undeveloped Central American prospects, which, if developed, would probably need new financing before they could add much to the company's earnings. There would also be a certain amount of valuation in the tank cars owned by the company, and the refinery at New Orleans, and other scattered holdings, but valuation of $26,000,000 for these scattered holdings is "some statistical feat."

Freeport & Tampico Co.

The properties acquired from the Freeport & Tampico Fuel Oil Corporation, even though they should be included in the $47,000,000 asset item, would not seem to account for very much of the total. The company, when it operated as an independent, was anything but a success. From the time of its incorporation until control was taken over by the Sinclair Gulf Corporation, the Freeport & Tampico Fuel Oil Co., and later the Freeport & Tampico Fuel Oil Corporation, which succeeded it, were unable to pay any dividends on the common or preferred stocks. The latter corporation, formed early in 1914, did not pay its 6 per cent. annual dividend on $300,000 cumulative preferred stock. This would require the small sum of $18,000 a year, which would seem to indicate that the company's earnings could not have been very large. It had a little over $9,000,000 outstanding common stock, par 100. The common stock of a company which cannot pay small preferred dividends certainly would not be worth much above 10 per cent. of par, therefore it would seem doubtful if more than $1,000,000 in value was represented by the acquisition of the Freeport & Tampico stock control.

The Mexican properties are supposed to have capacity for 150,000 barrels of crude oil daily, and the No. 3 Zurita well on its properties is said to be capable of 100,000 barrels daily. These figures sound very big in the United States, where a hundred-barrel well in Pennsylvania, or a thousand-barrel well in Mid-Continent is a cause for enthusiasm.

In Mexico, however, they not only deal in big figures, but in wonderful hopes for the future. At present it is not only difficult to get such crude oil production out for companies that are able to get to seaboard, but there is a very small profit even then. Furthermore, there are many small companies which own properties in Mexico, such as the Federal Oil Co., the Tuxpam Star Oil Co., etc., which have leases expected to produce an enormous amount of oil some day. These little companies have had their lands tested and looked over by geologists, but there is no enormous inflation of their securities because of what will happen some day. If the Mexican properties of the Sinclair Gulf Corporation are worth millions and millions and millions, so ought to be those of many other corporations holding leases in that disordered country.

Six months' investigation or more would be needed by a full corps of expert accountants, geologists, etc., to be able to prove or disprove the claims of the Sinclair Gulf balance sheet, but the judgment of a statistician trained in analyzing financial statements, especially when comparing that of this company with the really successful ones in the oil business, would be to the effect that somewhere between 50 and 75 per cent. of the so-called asset value of this company should be "written off."

Selling Too High

My conclusion is that the Sinclair Gulf stock is selling even now on the basis of prospects, and exceptions, held out by the promoters of the company. Such expectations will have to materialize in a very remarkable way to justify the present selling price of the stock, and unless prosperity continues in the oil industry, there is a very slim chance of its being worth anything like the present price for a long time to come. If the company starts in to make money now, its profits will be absorbed largely by excess profits taxation.

In my judgment the company is so excessively capitalized that it will be years under the most favorable conditions before enough water will be squeezed out to make the stock worth its present selling price.

Oil Notes

Anglo-American—Has increased capitalization to £3,000,000, 1,000,000 new shares being offered for subscription by stockholders at $7.50; one new for each two shares held. The need for capital is to meet expansions in business.

Cumberland Pipe—Announces that it has declared an annual dividend of $10 a share, payable Dec. 15 to stock of record Nov. 30. This is an increase of $5 over the previous year.

Elk Basin—Drilling operations are being steadily continued in the Elk Field. Three recent wells are producing about 1,250 bbls. daily. Earnings are now about $500,000 annually.

Empire Refining—Local bankers have offered a block of company's first mortgage and collateral trust 10-year sinking fund 6% gold bonds of 1917, due Feb. 1, 1927. Company controls six refineries, five in Oklahoma and one in Texas, and the Empire Pipeline Co. in Kansas and Oklahoma.

Island Oil & Transport—$2,000,000 out of an authorized issue of $3,000,000 three-year 7% notes offered by local bankers have been subscribed. Notes were offered at 99 and interest, to yield about 7%, with a 50% stock bonus in company, of which $30,000,000 is authorized and $22,500,000 is issued (par $10).

Metropolitan Petroleum—Through committee's efforts, it is understood holders of the $1,000,000 20-year 6% debentures will receive par in Island Oil & Transport stock, and six months' interest, $30,000, in cash. It is understood stockholders will be asked to exchange their 480,000 shares for 240,000 shares (par $10) in Island Oil.

Midwest Refining—Bearing out reports that control has passed to Imperial Oil are recent developments in the Midwest company's directorate. William John Hanna, of Toronto, a director of Imperial, has become a director of Midwest. The Imperial is the Canadian subsidiary of Standard of New Jersey. It was announced recently that J. Roby Penn, former president of Illinois Pipe Line, had become vice-president of the Midwest Refining Co. and had been placed in general charge of operations in Wyoming.

Ohio Oil—Has brought in a new well on Section No. 10 in Big Muddy field owned equally by Ohio Oil and Merritt Oil.

Oklahoma P. & R.—Has acquired about 25,000 acres of leases in Kentucky. Oil has been struck on one lease in Allen County at about 200 feet.

Osage-Hominy—Announces it has brought in two wells, Nos. 51 and 69, for 150 barrels each on its properties in the Osage Nation, both flowing naturally from the Bartlesville sand. There are now 71 producing wells on this acreage, as compared with 11 a year previously.

S. O. of Indiana—As a result of war conditions, it is believed, announcement may be made that Standard Oil will turn over to independent oil companies the Burton system for refining gasoline. It is the desire of the Government and the oil industry that the manufacture of gasoline be increased, and it is thought one of the most effective ways of accomplishing this is to permit independents to use the Burton process. The Burton process, the property of S. O. of Indiana, the work of Wm. M. Burton (a director), has enabled company to extract 40% of gasoline from crude oil, as compared with 20% by other methods. Through the process the company has become the largest manufacturer of gasoline in the world, daily production being placed at 1,500,000 gallons.

S. O. of Kansas—Has asked State Supreme Court for relief from its edict which ten years previously limited its operations and controlled the source of supply. Officials now desire to enter the producing end and to purchase oil from other companies. Heretofore it was required to buy from Prairie Oil alone.

S. O. of Louisiana—Meeting of stockholders has been called for Nov. 21, 1917, to vote on an increase in capital stock from $5,000,000 to $10,000,000. All the stock is owned by S. O. of New Jersey, except directors' qualifying shares. Most of the company's business is supplying export oil for Standard of New Jersey, but its domestic business has increased in its territory comprising Louisiana, Arkansas and Mississippi.

S. O. of New Jersey—Is likely to announce stock distributions once excess profits taxes are known. This "parent" concern is understood to have on hand cash equal to par value of stock outstanding, $98,338,300. A recent appraisal of assets places book value of the shares at "over $1,000." Rumor has it that the expected stock distribution will take either of the following forms: New S. O. of New Jersey stock; part new S. O. of New Jersey and part Imperial Oil of Canada; or all of the latter, of which parent company is reputed to own 80%, or $20,000,000. Company had advanced the price of refined oil in barrels for export 10 cents a gallon.

Oil Inquiries

Two Standard Oils Compared

E. D. T., Milwaukee, Wis.—Ohio Oil is preferable to South Penn Oil for investment, because the latter has broadened its field of activities by the acquisition of properties in Wyoming and Kentucky and other oil fields. On the other hand, the South Penn Oil Co. confines its operations very largely to the old Pennsylvania fields, in which the production is declining steadily. Of course, the South Penn Co. is largely interested in the Penn-Mex Fuel Co., which latter operates in Mexico and has a very promising future. It would require too much space for us to go into full particulars as to the comparative merits of these two stocks. Suffice it to say that we regard Ohio Oil as the best investment purchase, but we advise its purchase only on condition that the buyer is ready to hold through a possible further decline. The Standard Oil companies, as you doubtless know, will be subject to heavy excess profits taxation. The Government has not yet fixed a price on oil, and the uncertainty on this score may very well prevent any substantial advances in the Standard Oil stocks as a group at this time.

Standard of Indiana Still High

G. W. G., Elmira, N. Y.—Standard Oil of Indiana is selling comparatively high, and while we believe that the stock will in time have a value above any previous market level before that time, substantially lower prices than now current may be seen, owing to the new elements injected into the oil industry by the war conditions.

Unless you have a heavy loss on your commitment, you would be wise to close out and wait for lower prices.

A Case of Over Expansion

M. H. T., Duluth, Minn.—Cosden & Co. is fundamentally sound, but we are of the opinion that the capital obligations have been expanded out of all proportion to the assets and earning power. It is our belief, therefore, that with the next period of depression for the oil industry, the stock will sell under present levels. It would hardly be advisable for you to sacrifice your stock at the current low price, but in holding it you must realize that you are assuming considerable risk, and we suggest that you either sell it out at the market or be prepared to liquidate on any good rally.

Switch From Mexican Petroleum Desirable

H. A. I., Port Arthur, Tex.—Mexican Petroleum is a highly speculative issue, whose immediate market movement depends largely on political developments in Mexico. The company cannot very well go ahead with developing its extremely valuable property until settled conditions are assured in the Southern Republic. Undoubtedly the Mexican Petroleum Co. has valuable properties and potentially its earning power is enormous. But if you wish to participate in the future development of this company, we believe you could do so fully as well by owning the stock of the Pan-American Petroleum & Transport Co., which is the holding company for a large part of the Mexican Petroleum stock and which also controls the Pan-American Petroleum Transport Co., which latter company owns the ships and tankers used in transporting the oil of the Mexican Petroleum Co. The Pan-American Petroleum preferred stock is entitled to dividends at the rate of 7 per cent per annum, and is convertible into Pan-American common stock at the rate of 1.15 shares of the preferred for two shares of the common. Since the common stock has a par value of $50, this means that one share of preferred stock may be exchanged for two and a half (2½) shares of common stock at $57.50 each, or one full share of common stock at $115. The preferred stock of the Pan-American Petroleum Co. is, therefore, the one to buy if any interest whatever in the oil properties of the Mexican Petroleum Co. is desirable, for the former possesses, to all intents and purposes, the speculative features supposed to adhere to the Mexican Petroleum common stock.

MARKET STATISTICS

	Dow Jones Avgs.		50 Stocks			Breadth
	20 Inds.	20 Rails	High	Low	Total Sales	(No. Issues)
Mon., Oct. 22	79.06	83.57	71.25	69.90	711,300	200
Tues., " 23	78.50	83.17	70.44	69.32	578,100	182
Wed., " 24	78.30	82.65	69.67	69.06	245,100	149
Thurs., " 25	77.68	81.73	69.96	68.75	565,300	173
Fri., " 26	77.35	81.96	69.35	68.36	488,300	170
Sat., " 27	78.91	82.61	69.87	69.12	336,700	145
Mon., " 29	76.28	81.08	69.56	67.83	844,100	205
Tues., " 30	75.53	80.50	67.94	66.64	945,100	209
Wed., " 31	74.50	79.61	67.15	65.46	1,104,900	228
Thurs., Nov. 1	71.41	77.21	66.05	63.55	1,444,000	249
Fri., " 2	72.52	78.00	65.89	64.28	925,300	236
Sat., " 3	72.32	77.37	65.34	64.26	333,100	204

Discovering the World's Greatest Silver Properties

Tale of the Wonderful Comstock Lode—The Silver Kings, Mackay, Flood and Fair—Millions Lost and Won —The Contest of Science and Nature

By JAMES SPEED

IF you had happened to be hovering over the great Nevada desert nearly seventy years ago—in the year 1848, to be exact—you would have seen a strange and wondrous sight. You would have seen a vast army of horses, wagons and men toiling painfully over the arid soil, pushing on and ever feverishly on towards the setting sun. California was the goal—California literally the golden land where the yellow metal lay just below the grass roots waiting the venturesome prospector. Of that great army which streamed to the Pacific Coast in that year and the year following I dare say that not more than one out of 50,000 ever attained wealth and not one out of 1,000 a competence. There is a bitter irony in the fact that many times during the day and many times when they camped at night they were literally surrounded with wealth which would have satisfied their wildest dreams. But it was silver wealth, the silver of the great Comstock lode, and gold was the only thing those early prospectors knew. The story of the discovery of the Comstock lode is about as interesting as one can find in the annals of mining.

The silver treasures of the Comstock were discovered by miners who were prospecting for gold which was found in the beds of the streams pouring down from the north and south sides of Mount Davidson. As the early prospectors worked up the ravines toward this peak the gold they obtained became lighter in color, and of lesser value than that previously obtained. It was impregnated with *silver*, but these men did not know that. They were approaching silver vaults of stupendous richness, and did not know it. Ignorant of geology, these men also failed to realize that, while in the lower reaches of the ravines they were simply treating the scourings from sides of Mount Davidson, they were approaching daily the actual source from which the metal came. Gold Canon was the name of the southern ravine in which these old miners worked.

The Grosh brothers, two Eastern men, possessing a better theoretical knowledge of the mining art than their rude companions, were the first, it seems, to both suspect and discover the existence of silver in Gold Canon. In a letter written to their people, in March, 1856, they state they were desirous of "getting a couple of hundred dollars together for the purpose of making a careful examination of a silver lead in Gold Canon"—"native silver is found here." They continue, "the miners supposing it to be thin sheet lead, which it resembles."

In September they again wrote that "they had found two veins of silver at the forks of Gold Canon—one of these veins is a perfect monster."

A Monster Vein of Silver

The writer pauses here to observe that the two brothers *failed* to get the $200 they asked. Afterwards speculators poured out millions of dollars to prospect and develop the same ground the brothers were working over. Over $250,000,000 was spent in and around this locality within twenty-one years afterward. Over $306,000,000 was taken from it within the same period. And the brothers asked for $200—and didn't get it! However:

Writing home again in June, 1857, they sent a diagram—if this diagram is examined now it will be seen that it was almost certainly a reproduction of the south-end Comstock ledges, whose marvelous production has become historical. Surely, Dame Fortune was about to dower the brothers with riches. From rock they took from this vein they had an assay made which run over thirty-five hundred dollars to the ton. They had really struck the Great Comstock lode. Millionaires now, of course, you say—they died miserably poor. Hosea from blood poisoning, by a wound from his pick, in their miserable little cabin at the mouth of American Flat Ravine. Allen, starting from California some little time after to explain to capitalists the bonanza he had found, died from exposure in the bleak Sierras. Some say he carried his secret to the grave; others that it was unearthed from papers left behind in the little cabin when he started on

his fateful journey, and which were later unearthed by a man named Comstock.

"Heavy, Blue Stuff, Darn It"

Ignorant, uncouth, knowing only one metal, gold, some seventy or eighty hardy prospectors were, in 1858, working on the upmost slopes east and south of Mount Davidson. Stupendous wealth lay under their feet, broad hints of it lay nightly in their sluice boxes, "heavy blue stuff that clogged their riffles, d—n it." Around here, it seems, a little body of them located a little mound which they called Gold Hill. This was the south end of the mighty Comstock. A few feet below lay hidden the stupendous wealth that the Yellow Jacket, Belcher, Crown Point, Imperial, Kentuck, Empire and others afterward gouged out.

The miners here made fair wages from the surface placer ground. Quite a little local excitement was roused as a matter of fact, and other prospectors wandered through the locality hoping to strike ground as comparatively rich. They sometimes were fortunate in finding gold in little crevices of rock, but it became very soon exhausted. In the meantime these hardy pioneers were finding — and cursing — the "strange blue stuff" that had worried them in their previous sluicing operations, and which they now began to find in the hard earth encountered the moment they went below the surface. Near Gold Hill, on the side of a little declivity two Irish miners located. These men had been disheartened with the hardness of the ground in which they had been previously working, and from which they barely earned $2 daily. This hillside looked more inviting. It was of yielding clay and loose gravel. They began it as a forlorn hope hoping to get into a more inviting district from the little money they could take from this claim. As a matter of fact they were working on the very top of the gigantic deposits of silver and gold that were afterward taken out from the sensational Ophir.

However, they had hardly sunk four feet before they "struck it rich," their pan showing gold glittering in the bottom after the first washing. Here was something they understood. A black streak of some substance extended down the ledge (silver), but they took no notice of it.

Comstock, it is recorded, came along as they washed their first pan, and a glance at it roused his cupidity. He set up, we are told, a more or less valid claim to the property, and induced these men to give him a share in the claim. They worked steadily in pay dirt till June 12, when the pay streak ran into a ledge. This date chronicles the discovery of the Comstock proper then. Striking the ledge was a matter of regret. Hard rock had ever been avoided by these knights of the sluice box, as it seemed to presage the rapid exhaustion of their claim. Stupidity to the meaning of unmistakable treasure signs was rampant. They were dwelling over, working over, sleeping over enormous mineral deposits destined to fire a continent with excitement and did not know it.

HORACE GREELEY'S VISION

"I have come across a desolate and terrible country, a land seemingly worthless forever—the Great American Desert. But I believe that the Almighty has created nothing in vain, and as I have passed over this awful region, the thought has fixed itself in my mind that, since it is certainly useless for every other purpose, it may be a land of vast mineral wealth. If that be so, it will take a hundred thousand miners a hundred thousand years even to prospect it."—*From a speech by Horace Greeley in the Summer of 1859.*

Beginnings of Virginia City

The men on top of the future Ophir soon drew a cluster of tents around them, and "Old Virginia," a character among characters, named the place in a drunken revel Virginia City.

These men, having in their possession millions of wealth, sold their birthrights for a mess of pottage. As the surface ground was worked out they came to stubborn rock, considered their claims exhausted, and sold out. A fifth interest in the coming great Ophir mine was secured by Osborn for building a hut on the claim. He thought he made a keen bargain when he sold that interest for $7,000. McLaughlin, one of the original owners, sold his interest for $3,500, and Comstock sold for $11,000. All the original owners of the world famous lode died poor, while thousands were being en-

riched from the contents of the famous mine they once owned.

The Great Rush

It seems it was left for the farmer to tell the miners how they were flouting Fortune —Harrison was his name. He rode one day to Virginia City and saw men there throwing away masses of "blue stuff," with blood curdling imprecations on its uselessness. Harrison carried some of it home and invested a few dollars in sending it for assay. He was told that a ton of it was worth $1,595 in gold and $4,791 in silver. Judge Walsh and Joe Woodworth, of Nevada City, when they heard Harrison's report, quietly but swiftly made a bee-line for Virginia City and a thousand "fellow citizens" poured after them—the Comstock boom was on. The ensuing tale is one of mad avarice—from all quarters of the continent men poured over the bleak Sierras to wrest from their rock-ribbed sides the wealth of silver they held. It was certainly there. Even the water was found impregnated with gold and silver, the mixture of minerals giving it a bitter taste, and eventually threatening the health of the miners.

It is estimated that over $306,000,000 was yielded in bullion from the Comstock within twenty-one years, and that dividends of over $116,000,000 were paid within the same period.

Treasure Vaults of Nature

Comstock mining was distinguished by spectacular effects throughout. A shaft might be sunk down through ore of poor quality, when, suddenly, it would break into a veritable treasure vault of nature. When this occurred the stocks based on these various mines would leap skyward with terrific speed. As the shaft worked through these rich deposits poor ore would again be encountered and prices would as quickly drop, only to be revived again, sometimes within a few days, sometimes within a few months, and occasionally with intervals of a year or more. Crown Point, for instance, an early dividend-payer, at one time ceased dividends and began to replace them by assessments. Its stock sold at a price that made the market value of the mine $24,000. Many disheartened shareholders let go their holdings; gloom prevailed, and the Comstock began to be spoken of as a "has been." Suddenly the intensely hard porphyry grew softer, being replaced by soft white quartz which contained ore in knobs. The stock was selling about this time at $2 per share, but took an immediate jump to $90 per share. Men who went to bed poor arose rich. Between May, 1864, and May, 1877, this mine alone yielded nearly twenty-five millions of dollars. In 1870 Crown Point stock was sold at $2.99 per share. Eighteen months later it was selling to eager purchasers at $1,825 per share. Its value as estimated by the stock market had advanced from $24,000 to $22,000,000. Truly, mining is full of surprises. A successive series of incidents such as this distinguishes the history of nearly all the Comstock mines. Old miners and speculators began to buy stock of Comstock mines that had worked fruitlessly for a long time; it was argued that they had been a long time delving without luck and their operations must have brought them nearer other treasures. In many cases this line of reasoning proved correct. As a matter of fact all the mines were working on mountains that contained tremendously rich deposits of ore, and given that fact one mine was as likely to be as lucky as another.

Bonanza strikes began to occur in quick succession and brought in their train frantic bids for the stock holdings of lucky owners. Ophir yielded $20,000,000; Savage, $16,500,000; Hale and Norcross, $11,000,000; Chollar and Potosi, $16,000,000; Gould and Curry, $15,000,000; Yellow Jacket, $16,500,000; Crown Point, $22,000,000; Belcher, $26,000,000; Overman, $3,500,000; Imperial, $2,750,000. Famous bullion producers abounded through the district, and for the first twelve years after 1859 the Comstock mines enriched the world to the extent of over $12,000,000 annually.

These stupendous riches naturally required capital to get out and a movement set in among a few wealthy men to gradually acquire control of the leading mining properties, the Bank of California being the instrument through which these men worked. The yield of the mines began to decrease and this bank stepped into the field with offers to loan money at rates much below those locally charged. William Sharon, a close student of the geology of the district, also a daring speculator, was managing the branch of the Bank of California at Virginia City. He had the courage of his opinions, and his judgment was relied on implicitly by the San Francisco ring of capitalists. With singular courage these men, counseled by Sharon, poured their funds into the district at a time when ore deposits seemed to be about exhausted, and the lustre of the Comstock dimmed forever. He fathered the famous Mill and Mining Company, and, like the Guggenheims, his policy was to let others mine the ore while his company acquired control of the mills

necessary to reduce it to bullion. In two years the corporation owned seventeen mills on the Comstock lode, monopolizing the milling of nearly all ores produced.

Mackay, Flood and Fair

In 1870 the Crown Point struck its great bonanza. Belcher, an adjoining mine, felt the benefit, its stock leaping from $1.50 to $1,525 per share. Here enters Mackay, Fair and Flood, the world renowned silver kings. Lucky speculative ventures in the district had given them capital, also a faithful following. The Hale and Norcross mine, in 1868, struck its second series of bonanza ore, and its stock leaped from $1,260 per share to $2,100. The ore paid out and the price collapsed to $42 per share, Mackay and Fair getting together all the capital they could control, beg or borrow, purchased stock sufficient to give them control. Fair believed he knew the mine; he did. Furthermore, he had a positive genius for "smelling" pay ore; and he always followed his nose. He discovered a new bonanza in Hale and Norcross and took from it over $780,000 in dividends between 1869 and 1870. Mackay and Fair successively invested in four other properties, one working as superintendent in the Savage, and the other in the Bullion. But neither of these properties paid out, and the partners, while much weakened financially, were still able to secure control of the California and Consolidated Virginia, valued then at about $40,000, and deemed by skilled operators grossly overvalued at that.

Fair's Strike

And now Fair gained his fortune clew. Working among his men in barren rock his keen eye discovered a narrow seam of rich ore no thicker than a knife blade. They followed it day by day, night by night with bull-dog tenacity hundreds of feet into the bowels of the earth; followed it when their only clew was a film of thin clay, followed it till it began to widen out, till it reached the dimensions of a seven-foot vein averaging $60 per ton. At a depth of 1,167 feet the ore body had widened to forty feet. In October they were in bonanza. Probably the richest hoard of precious metal ever known in the history of the world had been found by following an almost invisible streak of silver clay. The capital stock of the Consolidated Virginia was increased to 108,000 shares. It sold at $45 per share. In November, 1874, it sold at $115; in December at $610, and in January immediately following at $700 per share.

The California stock (mine controlled by Fair and Flood) went even higher, the reasoning being that of the two mines California had the largest part of the ore body. The shares, worth $37 in September, rose to $780 in January, 1875, making a mine valued at $40,000 when Mackay acquired control, worth $84,240,000; 1,310 feet of the California lode, valued five years before at $50,000, was now, by market quotations, worth $160,000,000.

"Marvelous as a Persian Tale"

Silver was found in this bonanza in the most strange and beautiful forms—sometimes in coils of wire, sometimes in silver crystals, sometimes in bunches and clusters of the purest silver. Staggering estimates of the value of ore "in sight" were made. Mackay, however, refused to give any estimate; it is doubtful whether he could. It was seen that the mine was immensely rich; how rich was a matter of wild conjecture. Of it the United States Geological Survey report of that period says:

"No discovery which matches it has been made on this earth from the day when the first miner struck a ledge with his rude pick until the present. The plain facts are as marvelous as a Persian tale, for the young Aladdin did not see in the glittering case of the genii such fabulous riches as were lying in that dark womb of rock."

This discovery naturally sent other stocks soaring to the skies again. It was an era of mad speculation, and it is estimated that there was not coin enough in America to secure control of the mines on the Comstock lode. By the middle of 1879 Consolidated Virginia had paid fifty-two dividends totaling $42,020,000, and California had paid over $31,050,000 in the same period.

Beginning of the Decline

1879 marks the decline of the Comstock. It was swiftly brought about, largely through natural conditions. Men had been delving down to the inferno beneath the thin earth's crust. Above them mighty mountains labored in travail. The heat grew terrific, overcoming even the spirit of the indomitable toilers who were hurried to the light insensible or dead. Springs of boiling water burst forth from rock crevices in which men were scalded to death. Foul air claimed victims in scores, and above the laboring rocks crushed in shafts and crushed out lives with appalling suddenness. Fire, water, air and pressure united to repel the invaders of Nature's treasure vaults, and finally scored a conquest over the brain and ingenuity of man.

Mining Notes

Adventure—Owing to prices set for copper by the Government, has suspended operations. Company could possibly operate profitably if it had a larger production.

Ahmeek—17th and 18th levels south of No. 3 shaft have been extended to the Mohawk boundary, all in fair copper rock.

Alaska Gold—It is estimated would escape both income and war profits taxes. Estimated profits $345,000 for 1917 are less than the exemptions permitted for plant depreciation, mine depletion and interest charges.

Allouez—Is one of the few Lake Superior mines that will show substantial increase in output for 1917. Rock daily average is 2,100 tons, averaging 18 lbs.

American Zinc—Company has net quick assets of rising $4,600,000, which includes $600,000 cash on hand. From miscellaneous revenue American Zinc's pfd. stock dividend requirements of $6 per share on 80,000 shares are covered. The company has a substantial source of revenue from its zinc oxide business, from sulphuric acid, from dividends on its 70% interest in the prosperous Wisconsin Zinc Co., and from royalties received from its Joplin mining operations.

Anaconda—Hoisted 11,478 tons, of which 600 tons were zinc and the balance copper. Mines are being operated at 78% of normal, 7,847 men being at work. About 11,000 tons hoisted daily is equivalent to a production of 20,000,000 lbs. monthly. The number of men returning to work is increasing daily.

Beaver—Recent developments at 1,600-foot level are understood to have shown considerable improvement. The high-grade vein encountered at that depth early in 1917 has been stoped on for about 100 feet. It is now supposed to sink still deeper.

Butte & Superior—Average daily hoisting of 1,300 tons of 15% zinc ore in October is expected. The compromise recently announced on the part of American Zinc with Minerals Separation had prompted the query as to whether this settlement would pave the way for negotiations between Butte & Superior and Minerals Separation. It is believed in some quarters that an effort will be made soon to bring interests of both together. Elm Orlu and Davis-Daly mines of company are said to be operating 70% to 72% capacity.

Caledonia—Government will probably get much or all of company's surplus, about $700,000, which stockholders had been figuring as belonging to them. Profits for the year will approximate $1,275,000 on current lead-silver prices, but the Government may get $700,000 war profits tax and $35,000 income tax (assuming $500,000 "capital invested" in Caledonia), leaving $450,000 of estimated 1917 profits available for stockholders, or 21 cents a share.

Canada Copper—There is much activity at company's property on Copper Mountain. Considerable quantities of material are being hauled by wagon from the railway at Princeton, and preparations for putting in a 3,000-ton-a-day concentrating plant are stated to be in progress.

Chile Copper—Announces September production 3,294,000 lbs., compared with 8,036,000 August, 1917, and 4,038,000 September, 1916. Reduced production in September was due to inability to secure required deliveries of California and Mexican fuel oil and to the general shortage of Chilian coal.

Consolidated Coppermines—With a single unit of its mill in operation has brought production up to 1,200,000 lbs. a month. Ore shipments aggregate 1,800 tons daily. Company has 27,000,000 tons of reserves, and development work is going on in an effort to add materially to life of the property.

Con. Interstate-Callahan—Came into $159,825 cash through termination of litigation, with Patrick Burke centering about the Amazon-Manhattan group of claims acquired by the Interstate-Callahan interests in 1912.

Crown Reserve—Is reported to have secured an option to purchase 1,800,000 shares of Newray Mines, Ltd., which comprises one of the large mineralized estates in Porcupine. Crown Reserve is to assume charge under supervision of Mr. Sumerheyes, of Porcupine Crown.

Dome Mines—Initial semi-annual statement, six months ended Sept. 30, 1917, shows: Returns from bullion, $694,541; gross income, $701,810; net earnings, $167,234. Balance sheet shows profit and loss surplus $595,706, against $697,051 March 31, 1917.

Franklin—Output of rock for September was 23,000 tons, compared with 27,000 tons in August. Old shaft has full crew, but more men could be worked at No. 2.

Granby—Reports that in September it produced 3,321,754 lbs., of which 2,739,948 were from Anyox and 581,806 from Grand

Forks. In August production totaled 3,836,-770 lbs.

International Nickel — Earnings for six months ended Sept. 30, 1917, leaves a net balance $4,751,774 available for dividends. The balance (after pfd. dividends) for the period is equal to $2.68 the common stock, against $3.64 earned for the six months to Sept. 30, 1916. Balance sheet shows a profit and loss surplus $1,974,320, against $3,566,793 Sept. 30, 1916.

Jim Butler — Net profits for September were $55,000, compared with $46,740 in August and $37,107 in September, 1916.

Kennecott—The meaning of "invested capital" is of deep importance as regards liability for war profits taxes. Company reported $120,602,374 net assets as of Jan. 1, 1917 (since higher), and on this basis war profits tax for 1917 would be about $650,000. A strict interpretation of capital "invested" within the letter of the law might put the tax up to $5,220,000, and strictly literal interpretation $7,585,000. Kennecott's taxable profits on Alaska copper production and interest on surplus in 1917 approximate $14,500,000 net taxable income, or 50% on capital of $29,000,000. War profits tax in this case would be 18% on capital, or $5,220,-000. On strictest interpretation of "invested capital," $18,500,000, taxable income of $14,-500,000 in 1917 would be 78.4% on capital, and war profits tax $7,585,000.

La Rose—Reports $545,683 surplus as of Sept. 30, 1917. The surplus includes $287,-492 cash, the balance in bonds, due from smelters, ore and silver on hand and secured loans.

La Salle—Long drifts at La Salle toward old Osceola are said to be showing good copper. Monthly output of rock is close to 15,000 tons.

Mammoth—Estimated production for September was 1,280,000 lbs. of copper.

Mass Consolidated—At the present rate of production Mass ought to run to 19,000 tons of rock in October. Newer openings are encouraging.

McKinley - Darragh — Reports surplus of $392,887 (comparing with $352,522 on June 25) consisting of $180,687 cash, $98,700 ore in transit and smelter, and $113,500 ore at mine for shipment.

Miami — The strike in the Globe-Miami district of Arizona is settled. The President's Mediation Commission has succeeded in working out a plan of adjustment which has been accepted by Old Dominion, Miami, Inspiration and International Smelter, the controlling mines; President Moyer of the International Union of Mine, Mill and Smelter Workers, and the local unions which are out on strike. This means early resumption of copper production at its full capacity by the single most important copper center in Arizona, if not in the United States. The normal monthly output of the district is about 21,000,000 lbs. of copper, requiring a working force of over 5,000 men.

North Butte—Has begun hoisting 50 tons daily in connection with development between 1,600 and 800-ft. levels. Company employs about 500 men, whereas it normally employs about 1,500 men with an output of from 1,300 to 1,400 tons of ore daily.

Silver King of Utah—Broke all records in September, 1917, as regards production and earnings. Mine and mill shipped 1,752 tons of ore, and concentrates and smelter returns were about $126,711, compared with $81,328 in August. Profits for seven months to Sept. 1, 1917, amounted to $350,840, or 50 cents a share.

Standard Silver-Lead—Profits in August sank to $27,499 versus $34,608 in July, and $34,293 in June. Company reported $263,354 surplus funds Sept. 1, 1917, including due from smelters.

Tonopah-Belmont—Net profits for September were $102,742, compared with $121,-614 in August and $93,036 in September, 1916.

Tonopah Mining — Earnings statement, quarter ended Aug. 31, 1917, of this company, and Desert Power & Mill Co., shows: Gross value of ore milled, $385,015; net earnings, $119,512; net, including other income, $151,502.

Utah—A prominent authority speaking of excess profits tax has said: "No estimate which I have yet seen takes into account the allowance which mining companies are to be permitted to make against ore exhaustion and the consequent depletion of capital account. Prominent attorneys have been asked to figure prospective tax to be levied against the 'porphyries' and until some composite conclusion can be drawn it will be unwise to venture a definite prediction as to what will be Utah's tax. If it exceeds $6,000,000, $4 a share, I shall be greatly surprised." Against estimated income of $25,000,000 in 1918, deducting, say, $6,509,000 war profits tax, $989,000 Federal income tax and about $2,000,000 for depreciation, etc., leaves $15,500,000 for distribution, or $9.55 per share.

Mining Inquiries

Ray and Excess Profits Taxes

J. P. S., Detroit, Mich.—Ray Consolidated is one of the best investment copper stocks and in time should be intrinsically worth above $30 a share. Ray will probably not suffer enough from the excess profits taxation, as now outlined, to compel the company to reduce the present regular dividend payments, but of course, if the war continues, taxation will probably grow heavier and Ray, like all of the other copper companies, may find it very difficult to maintain regular dividends. On the other hand, with peace copper prices may come down quite radically, and that might lead to a reduction in dividend payments. On the whole, the stock is in a *speculative position*, and you would not be well advised to hold unless you placed a stop loss order with the idea of taking advantage of a good rally above current prices to close out. It would be better for you to hold the stock temporarily at least, for it has already had a severe decline, and some kind of a rally is in order.

Inspiration's Dividends Not Safe

Inspiration Copper will likely find it necessary to reduce its present annual dividend rate of $8.00 per share because of the excess profits taxation. It is estimated by a competent authority that, after deducting this tax, Inspiration will be able to earn $9.50, or such a small margin above dividend requirements as to make continued payments at the present rate unwarrantable. Hence, Inspiration occupies a vulnerable position and must be regarded as speculative at the present time. Inspiration has not yet had a chance to show what it can do in a full year's operation at capacity. From time to time new units of its concentrator have been placed in commission, the latest addition having been in April of this year. Twenty sections or the entire contemplated capacity are now in operation, and Inspiration's monthly copper yields are expected to exceed 12,000,000 pounds. When Inspiration's plants are operating at their highest efficiency the company may be able to successfully combat rising costs. In the meantime, however, the stock is subject to the same uncertainties as the other members of the copper group.

Position of Nipissing and Kerr Lake

H. L. B., Cristobal, C. Z.—Neither Nipissing nor Kerr Lake may be regarded as permanent dividend payers because their ore reserves are not only reaching the exhaustion stage, but also because the ores remaining in the mines are low-grade and cannot be mined at anything like present profits with silver prices at normal levels. Therefore, purchases of either of these two stocks should be regarded as speculative. As speculations, we consider them rather attractive but do not recommend them as purchases to hold for a permanent dividend return, nor do we believe either should be bought in the present uncertain market.

Mines Company of America

W. H. B., Johnstown, Pa.—Mines Company of America in view of the changing tendency of political conditions in Mexico, is a stock which is worth holding by a man in your position who has a comparatively small amount of his surplus capital tied up in it. Of course, the stock is purely a speculation. But the company owns valuable property in Mexico, and the prospects for continued high silver prices and large demand for that metal together with the more optimistic outlook for a settlement of revolutionary disorders in the Southern Republic, encourage the hope that the company may soon be able to reopen its mines. We therefore suggest that you hold your stock, provided of course you are willing to assume the very considerable speculative risks involved.

Hecla's Changed Status

E. R. N., Phila., Pa.—Hecla Mining has undergone a change in status within the last two months due to many factors which have been injected into the situation, not the least of which is the great decline in lead prices. The lead market is now in a semi-demoralized condition. Hecla is a large producer of lead and last year it realized enormous profits from this source, due to the high war prices. A further factor of unfavorable import is Government taxation which will no doubt cut severely into the company's profits. The dividend is not safe and lower prices are likely to be seen. Hecla's ore reserves have been added to substantially since 1915 and it must be admitted that the tangible value of the assets back of the stock has been materially increased. For this reason, it is unlikely that Hecla will sell down as low as its pre-war level, which was between 1 and 2, but there is still room for a considerable decline. We do not advise a purchase.

Chino's Dividends in Danger

A. C. B., St. Louis, Mo.—Chino Copper is in a very unfavorable position by reason of price fixing and the Government policy of taxation of excess profits. Reliable estimates show that after deduction of excess profits tax, upon a basis of 23½c copper, the earnings of Chino will be $7.80 compared with its present dividend of $10.00. Comment upon such a position is superfluous and it hardly appears reasonable to expect the company to maintain even the 1916 dividends of $8.25 per share. We advise you to place a stop loss order on the stock and to take advantage of favorable opportunity to sell.

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Fuselage assembling room of the big Curtiss plant at Buffalo, N. Y.

Will the War-Plane Industry be Developed in This Country? —Has the Business Passed the Experimental Stage?—Prospects for Profits

By ARTHUR N. SLOCUM

"WHOEVER you are, there's somebody that doesn't like you," wrote Dr. Frank Crane in one of his editorials. There are investors who even go so far as to dislike the Liberty 4 per cent loan, but they are very careful to avoid making their dislike generally known.

There are a few thousands of investors, however, who will shout from the housetops that they have no use for Curtiss Aeroplane securities. These investors lack the great American characteristic of "sportsmanship."

The Lure of the Mysterious

Our country is yet in its infancy and for that reason we are not content simply to follow along on the reputation of "past performances." Not having attained the distinction of conservative old age, we are ready to "take a chance" on any new constructive idea. The first baby carriage brought a storm of protest from the conservatives and the bicycle and automobile came in for their share of discouragement, but the aeroplane arrived in spite of general disparagement by "old timers." The introductory stage has passed and the period for commercial development has arrived.

It may be surprising to the general public to know that, when the subscription books opened early in January, 1916, hundreds of bank officials, prominent merchants, conservative investment firms and wealthy retired capitalists, accepted Curtiss Aeroplane preferred stock at $100 a share with a bonus of 25 per cent in common.

It was the lure of the mysterious, the unknown possibilities, that induced these men to take a chance.

An Aladdin-Like Growth

Let us hastily present the facts about the company and its statistical history.

On January 14, 1916, the corporate existence of the Curtiss Aeroplane & Motor Corporation was established under the laws of the State of New York. The purpose stated was for manufacturing aeroplanes, air craft and auto motors, and the teaching of individuals to become proficient in aerial navigation.

The company was consolidated from the Curtiss Motor Co. and its subsidiaries, Curtiss Aeroplane Co., Curtiss Aero & Motors, Ltd., and Curtiss Exhibition Company. A month later the control of the Burgess Company, a pioneer in American aviation, was acquired.

The Curtiss Co. proper has plants located in Buffalo and Hammondsport, N. Y., and the Burgess plant is located at Marblehead, Mass. The plant at Buffalo has been increased 600 per cent. It was rushed with tremendous speed in order that the company could handle the

business of the United States Government as well as its foreign orders. Although available statistics and rumor credit the company with a normal capacity of about 1,500 machines and 1,500 engines per annum, there have been additions to the plant to increase this output manyfold.

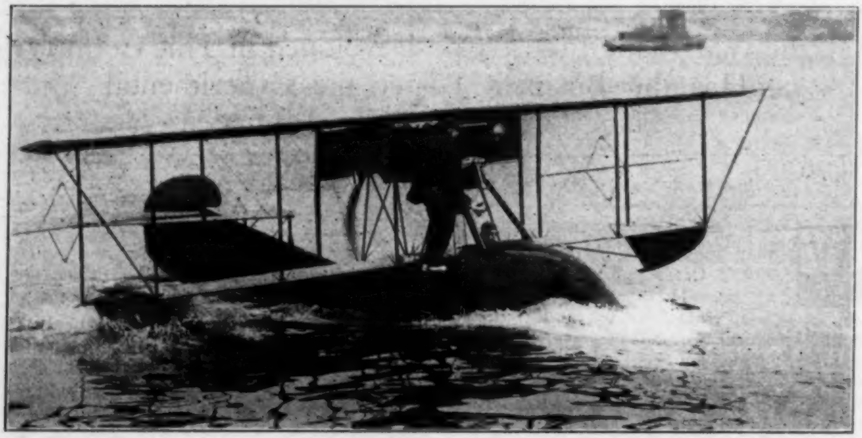
The entire bonded indebtedness of the company is represented by $2,000,000 6 per cent notes, known as first and convertible gold bonds. They are dated Jan. 1, 1917, due $400,000 each Jan. 1st, 1918 to 1922, inclusive, interest payable January and July at the Central Trust Co., the trustees. They are redeemable at 102½ and interest on 40 days' notice and are convertible into Common Stock Voting Trust Certificates on a basis of 20 shares of stock for each $1,000 note.

surplus and plan for big returns. These bonds are not secured by mortgage, but no mortgage can be placed while these bonds are in existence, nor can any of the materials, stock or accounts be pledged outside of the ordinary course of business.

Personnel and Vicissitudes

Before we throw the searchlight on the stock value outlook, it is wise to review the "brains" of the company and learn what kind of men direct its destinies.

In the beginning Glenn H. Curtiss, world-known in the aviation profession, was founder and head of the business. Things did not go right from the very start and it did not take the "big" men long to find out that a stiff injection of business stimulus was necessary if the company was to have a successful existence.



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Lawrence Sperry testing his new stabilizing device on the East River

In addition there are $2,000,000 ten-year 6 per cent Gold Notes dated Jan. 1, 1917, which were sold to private interests and rank both as to principal and interest after the convertibles offered to the public. This issue has no interest for the outsider other than the priority of interest payment from the earnings.

The convertible bonds are classed as a very good speculative investment. The convertible privilege may be worth something, but that is extremely doubtful. Inasmuch as these bonds are selling around parity the common stock would have to sell above fifty to make this feature attractive.

The investment is not one for widows or trustees but for the energetic young business man who can afford to take a chance with his

A review of the information sent to financial papers is interesting because it clearly defines an undercurrent of trouble.

On January 20, 1916, mention is made of the first of the patent suits brought against the company by Augustus Herring, a former associate of Curtiss. Many more such suits were to follow.

Little progress was made until the latter part of June, 1917, when announcement was made of the co-ordination of Curtiss interests with the Willys coterie. John N. Willys eventually became President and a member of the Voting Trust Committee for the common stockholders.

William A. Morgan was an excellent find as

Vice-President and General Manager, and Glenn H. Curtiss retained his position as Chairman of the Board, which had a notable list of rich and prominent men on it—Rodman Wanamaker, Geo. C. Taylor, of the American Express Co.; C. M. Keys, representing large financial interests; J. E. Kepperley, and J. K. Mitchell. An additional 63,000 shares of no-par stock was sold at $35 and then the company entered into real growth.

If we had not entered into the world war, the story might have been very different; for, with the $640,000,000 voted for planes, it is perfectly safe to assume that the Curtiss Co. will get its full quota. In fact, there have been unconfirmed rumors that the government has advanced large payments to rush the work of construction both of plants and planes.

The greatest evil to contend with was the patent controversies. This troublesome factor was solved by the creation of an arbitration board which acts as a clearing house for such controversies. It has been sanctioned by the attorney-general and construction can go on without legal interruption. This situation is of great value to the stockholders.

What Is Happening Just Now

So far as the Curtiss Co. is concerned, it is in the hands of experts and under control of the Willys interests. The financing question is as yet serious, but it is safe to assume that the United States government thinks too well of the Curtiss plants to permit trouble along this line.

It is doubtful if the public will be called upon to assume any more responsibility, for about 50 per cent of the orders on the company's books are under the government's cost-percentage profit plan by which the government makes weekly settlements for labor and materials.

The Curtiss Co. is principally supplying the government with flying boat requirements and training planes. Very few of the fighting aircraft are coming from the Curtiss shops. This is significant for it means that other companies can supply the fighting craft to better advantage, but this condition is not likely to be permanent, and it will not be long before Curtiss planes will drop their quota of bombs on German soil. There is another feature to consider:

"One aerial expert, among the many with whom I talked, said that about once in three months there was such an improvement in the German airplane service as made necessary the radical improvement and sometimes the rebuilding of French airplanes. In discussing our own contribution to the airplane service, he expressed the earnest hope that we would send our materials, our money, our experts, and our aviators over to France, *have our airships built there, and thus be able to keep up to date.* He added significantly: 'If the airships are built in your country, they may sometimes be out of date before they can be brought across the sea and used.'"—L. P. Powell, in the New York *Times*.

On the other hand, the future in our country depends upon the usability of the flying boat idea from a commercial and pleasure viewpoint. This is of course problematical as a business project, but our forecast is that there will be sufficient orders to make both ends meet for the note holders and preferred stockholders.

The study of past performances, of graphics and income statements relating to the Curtiss Co., is of little consequence because none of these illustrations prove anything definite. The future cannot be judged from the past in this case. The fact that the income account from Jan. 24, 1916, to Nov. 30, 1916, showed $6.45 per share earned for the common stock is interesting but in no way conclusive.

Some wild enthusiasts predict $150,000,000 or more business for this year, but even with the government business it is doubtful if the company could handle more than 8 times the business of the 10 months already reported, which would be about $50,000,000.

As for net profits, there is little doubt but that the government will make certain that they are by no means abnormal so far as the interests of the stockholders are affected.

Taking all these elements into consideration, it is necessary to arrive at the conclusion that the future of the stock for the next couple of years is extremely speculative.

Position of the Preferred Stock

The statement for the first ten months of business showed net earnings of $1,177,508, on which the preferred stock had to depend for its dividend. There is $6,000,000 of preferred stock and at a 7 per cent rate these earnings show that the rate was earned three times over. With the increase of business and a practical government subsidy established, there is no doubt but that the preferred stockholders will get their interest.

This stock is preferred both as to assets and dividends and the dividends are to be cumulative at the rate of 7 per cent. The stock will be callable until January 1, 1918, at 105 and accrued dividend and thereafter at 110 and accrued dividend. After the payment of all the notes a sinking fund at the rate of $300,000 per year is to be established from earnings for the protection of the preferred stock. No dividend can be paid on the common unless accrued requirements as to payment of preferred share dividends or sinking fund shall have been provided for.

This preferred stock was brought out at par with a bonus of 25 per cent in common (the common having no par value). The buyers were rich and influential men. For a few days the stock rose above par and the common to $60, which permitted these "insiders" to dispose of their bonus stock. Within a few months the rumors of troubles grew in volume and the preferred gradually declined until the fall of 1916 found the preferred price around $50.

There was no participation by this stock in the "fall boom" of 1916, but with the advent of the war in 1917 the stock rose to $90 and has been inactive, now being quoted at $65-70.

The stock is slumbering peacefully because there is no public interest in it. It has certainly reached the level of its class and is quoted higher than some high-grade 7 per cent preferred industrial stocks of tested ability. It is a rich man's investment with many sentimental elements and there is no speculative or investment reason why it should sell higher than par ($100) unless it were to be called. It is not to be condemned, but there are so many better and surer investments that it must take its place in the center of the line and not at the top.

Outlook for the Common Stock

Originally there were 150,000 common shares of no par value. Later, when financing became necessary, 63,000 more shares were sold to stockholders at $35 per share. Both the common and preferred shares are held in a voting trust agreement of five years duration. The present trustees are: John N. Willys, J. E. Kepperley and Glenn H. Curtiss.

The significance of this is that the common and preferred stockholders, during the life of the voting trust, have no voice in the company's affairs. The voting trustees have full control and if they so desire may decide not to pay a dividend on the common stock, regardless of how large the earnings may be.

If this feature is ably managed, the stockholders will be benefited in the long run, for it will be to the advantage of the common stockholders to build up the business out of surplus earnings. If the company succeeds and continues this plan, the common stockholders may wake up some day in future years with real wealth in their grasp.

However, no dividend can ever be paid on the common greater than $8 per share for each year while the preferred shares are in existence, unless the sinking fund shall at the same time have been increased by an amount equal to any excess over such dividend of $8 per common share.

Recent reports vary regarding the earnings which may be applied to the common stock. The company is not giving out any surplus of information, but some of the financial columns are making statements that the net per share for common will be $11. Others go as high as $18 and as low as $6.

On Oct. 17, 1917, the news was spread that the business on the books amounted to $50,000,000, and that the company would be able to save much money by using the O. X. type of engine manufactured by the Willys concern. Allowing for overstatements and the fact that much of this is government business; also allowing for the uncertainties of the excess profits and war taxes, the conservative estimate would be between $7 and $10 per share to be earned for the common.

It should be recalled that the common was introduced at $50 and well distributed so that most of the original holders have serious paper losses today unless they sold on the recent rise. During 1916 the common declined to $15, but when the new issue of stock was put out it was gradually worked up to above $35 and now rests at about $25. The high during 1917 was $62½—a war time price. The buyers on the war boom may have quite a wait before getting out even.

Conclusions to be Drawn

The amount of business which the Curtiss Co. and others are expected to receive has been greatly exaggerated.

There is little prospect that the company will pay a dividend on its common shares for some years to come. Excess profits and taxation will play their parts in preventing big disbursements. The nature of the limitations on the common and the avowed policy of the management preclude any unexpected announcement of dividends. If such announcement did come it would not follow the avowed principles of the present management.

The preferred stock is safe for its regulation 7 per cent, which may be earned 6 or 7 times over, but its present price is sufficiently high to stifle speculative operations and there are other industrial investments much more attractive.

The 6 per cent notes, in the hands of the public, are attractive and worthy of the consideration of the man who has plenty of capital to invest and does not wish to put all his eggs in one basket.

The buyer of the common stock may see it rise for the moment in some manipulative wave, but he is incurring a large risk. The risk may be offset by the possible gain to be had by holding the stock for a long pull. The buyer himself is the only one who can decide whether or not he can afford to take this risk.

Unlisted Security Notes

Aetna—Earnings for September were $574,625, or $7,000 less than in August, due to the fire at one of the plants at Gary, Ind.

American Brass—The extra dividend of $4.50 is less than the last distribution of $11 because directors wish to conserve financial resources to make provision for excess profits and income taxes.

Am. Window Glass—Earnings show balance after preferred dividends of $2,886,799 for year ended Aug. 31 of $22.50 a share on $13,000,000 common stock, compared with $9.36 the preceding year.

Canadian Explosives—Plant near Montreal was blown up recently with an estimated damage of $1,600,000.

Carbon Steel—Stockholders are asked to join in a suit to recover bonuses around $1,000,000 (about $20 a share) and compel company to disclose funds available as dividends. A Protective Committee has been appointed.

Carnegie Steel—The new bar mill has been placed in operation. Nine are being constructed, with an annual capacity of 500,000 tons, representing an ultimate investment of $15,000,000.

Cramp Shipbuilding—Work is being rushed on Petty Island developments. Storage yards are in use, and plate racks erected.

Curtiss Aero.—Expects to be in a position to do a business in excess of $12,000,000 monthly by Jan. 1. Reports that it has all the business it can handle. Company is turning out eight training planes a day of the JN4 type, standard for the Allies.

du Pont de Nemours—At special meeting of stockholders vote in favor of Alfred I. du Pont's faction was 157,959. Against the resolution and for Pierre du Pont 312,587. The vote was for or against the taking over for stockholders about $45,000,000, representing stock purchased two years ago from Coleman du Pont, with earnings since that time.

Federal Shipbuilding—Has filed notice of payment of $3,000,000 capitalization in cash, and commenced construction of plant on the Newark meadows. E. H. Gary is president.

Federal Sugar—Has withdrawn from the market owing to scarcity of raw sugar. The refinery will be closed temporarily.

Fore River Shipbuilding — Has a contract for 50 destroyers for the Navy, to be completed in 16 months. The machine tools to be installed in the plate and angle shops will cost approximately $3,000,000.

Lehigh C. & N.—Has authorized an increase of capital stock to 584,868 shares (par $50). Privilege is given to stockholders to subscribe at par.

Lima Loco.—In connection with the 3½% dividend recently declared it is understood that earnings for period covered by dividend were five times dividend requirement, leaving over $300,000, or 14% p. a. for the common. Business on books aggregates $20,000,000.

North American—Is benefiting through its holdings in West Kentucky Coal which is mining 1,200,000 tons annually at about double profits normally obtained.

Ogilvie Mills—Statement for year ended Aug. 31, 1917, made the best showing in its history. Net profits aggregated $1,358,847, after payment of bond interest and provision for profits tax, equivalent to 48.7% on the common.

Procter & Gamble—Strike of 1,000 soapmakers in Kansas City plant was settled by granting increase in wages and recognition of the union.

Standard Screw—Suffered a loss of its Detroit plant around $300,000, said to be covered by insurance.

Scripps-Booth—Increase in capital from 70,000 shares of no par value to 120,000 shares had been authorized.

Scovill Manufacturing—Monthly dividend has been reduced to $5.

Stewart-Warner — Balance sheet, as of Sept. 30, 1917, shows surplus $5,585,830, against $4,195,441 Dec. 31, 1916.

United Motors—First annual report, June 30, 1917, shows net surplus available for dividends on shares outstanding $7,540,816, equal to $6.85 per share, after deducting normal income tax 2% and depreciation $868,465, but makes no allowances for excess profits tax.

Wright-Martin — Regarding order from our Government for 500 150-h.p. and 4,000 220-h.p. Hispano-Suiza motors, anyone who hopes to see all these contributing to the destruction of German armies by the summer of 1918 will be doomed to disappointment. This order, on a "cost plus" basis, should prove profitable. Outlook for earnings for the fiscal year ending May 31 is not encouraging. The French work has been done at a loss of about $500,000. The manufacture of Simplex cars has been suspended in concentration of effort on aeroplane motors.

TOPICS FOR TRADERS

Sound Principles of Trading

Some Fundamental Conceptions of Correct Trading Practice Evolved from the School of Experience

By THOS. L. SEXSMITH

IN the writer's capacity of regular contributor to THE MAGAZINE OF WALL STREET it has been his privilege, from time to time, to examine the original issues of that magazine (formerly known as "The Ticker"). The earlier files are rich in matter of almost priceless value to any one possessed with the true student's desire to get to the bottom of things in his chosen subject.

A Market Education

As the writer views the earlier numbers now, in the light of his later experiences, these pioneer volumes, supplemented by the current issues, constitute, in their entirety, the nearest known substitute for a full-fledged college course in the subjects of sane and scientific investment, trading in stocks based on reason, and the all-important stock market technique.

There are a number of reputable institutions of learning, today, which offer courses of instruction in investment. These courses are excellent, in the main, and are constantly undergoing improvement. But nowhere, outside of the columns of THE MAGAZINE OF WALL STREET, so far as the writer knows, is there to be found an opportunity for the average studiously as well as ambitiously inclined individual to pursue, with any degree of regularity, a course of instructive reading and study in the engrossing business of trading in stocks.

From the beginning, THE MAGAZINE OF WALL STREET has been the handbook of the student of Wall Street. Its files are crammed with letters from readers who have from time to time volunteered testimony concerning the money-making value to them of the various articles which have been printed between its covers.

Experts Now Employed

On the staff of the magazine are able experts in every branch of investment and speculation. From a small organization in the earlier days, small through the limitations of income incidental to a new venture in an untried field, its staff now includes writers well qualified to speak with authority upon all the various subjects having relation to the science of investment and trading in the stock market. Then, too, its contributors include many noted writers on finance, economics and business. Some of the biggest men in Wall Street have, from time to time, prepared special articles for it, which no other publication could obtain at any price.

But to get back to the point from which we started in the beginning of this article. In the second number of the old "Ticker," published in December, 1907, at a time when the country was still in the throes of the ill-famed panic of that memorable year, there appeared an article entitled, "Tips to Tickerites," by "Rollo Tape," whose book, "Studies in Tape Reading," written some time later, has since become the recognized textbook on the subject. As many of my readers already know, "Rollo Tape" is none other than Mr. Richard D. Wyckoff, editor of THE MAGAZINE OF WALL STREET, which, with this issue, celebrates its tenth anniversary.

Unsurpassed Trading Logic

It is a long time, as time goes in these days of super-speed, since 1907, and much has been written by many pens, from as many viewpoints, on the subject of trading in stocks, but nothing has appeared to compare, as a guide to success in actual trading, with that early contribution condensed into barely more than two columns of the second number of the "Ticker."

For the benefit of the thousands of present day readers of THE MAGAZINE OF WALL STREET, the writer has prevailed on the editors to reproduce the article in its entirety. With whatever authority goes with the experience of one who has "been through the mill," and has made the many errors of judgment and practice which a careful study of the points brought out in the re-

produced article will help the reader to avoid, he bespeaks for it a second, a third, and even a tenth reading, knowing full well that each successive reading will disclose something of value—something which may well prove to be the very thing needed to turn a trading failure into the most prized of all things, a substantial and consistent success.

The article follows:

"I have written below the main points of a trading method which I have followed with considerable success in the stock market.

"I usually trade with one point stop orders. My idea is that if I am wrong I had better be wrong for a point than to get stung for several points, while hanging on in the hope of coming out even. I generally follow the tendency of the market, trade on either side, and avoid buying on bulges or selling on dips.

"My operations are usually in the most active stocks, which have a broad market, and I only trade when I think I see a move coming on the tape. Sometimes you can spot these moves long enough in advance to give you a considerable advantage.

"For instance, some months ago when Metropolitan Securities was supposed to be 'pegged' at 50, anyone could see that a determined attempt was being made to break through its previously impregnable support. I sold the stock when I saw the avalanche coming, and knew that once that quotation was punctured there was no danger of my being twisted on the short side. This is the kind of a move I like to wait for, but, of course, I cannot get it every day.

"My orders are generally 'at the market.' I believe if a man wants to get in or out he ought to do it at the prevailing quotations. Unless he is a floor trader he cannot expect to catch microscopic fluctuations.

"As soon as my stock gets away from my net cost or selling price I usually raise stop order so that in any event my trade cannot show a loss. If the trade continues to go my way, I keep pushing the stop order up until the stock has a quick bulge or looks 'toppy,' when I close out. I find it best to disregard tips and follow the news, the facts, and the manipulation.

"By trading in only one or two stocks at a time I can concentrate my attention and get to a point where I know the action of a stock intimately. Every issue on the list has its peculiarities, very like so many individuals with different characteristics, and the more you trade in a stock the more you learn of its ways.

"Although I cut my losses very short, I would never for a moment think of trading on a small margin. I want 25 to 50 points behind me, not because I need protection, but because peace of mind is absolutely essential to the gathering of profits. I know lots of traders who with $5,000 will trade in from five hundred to a thousand shares of stock, but they are not the kind of people who stay in Wall Street.

"As you can see from the above, my position is the same as that of a floor trader who closely follows the trend of the market, cuts his losses short, and lets his profits run. Anyone who has visited the gallery of the New York Stock Exchange has noticed how the traders flock to a certain 'post' when activity starts in a stock. They remind one of a lot of flies swarming around a lump of sugar.

"The floor trader has a lot of advantages over me, but I have some over him. I cannot trade for as small profits as he can on account of the commission, and the time consumed in the transmission of my order to the floor, but, trading as I do for fair-sized profits, this handicap is somewhat overcome.

"The basis of my method is this:

"1—Manipulation makes the moves.

"2—After a stock has been accumulated by the insiders it is generally advanced to the first distributing point with only trifling reactions.

"3—A reaction of 2 points or more after a pronounced upward movement usually marks a distribution.

"My stop-order plan is just like one man boosting another up a tree. After a start has been made, each upward lift on the part of the climber is followed by a raise of the booster's hand, so that the fellow above is not likely to come down.

"The advantages of this method are: I never get tied up. Every trade I make has the possibility of a large profit with a very small risk. Large losses are impossible except when stocks have 'wide' openings' or where there is a panic over night. My interest account is small. My capital is always working. This manner of trading contains great possibilities in a market which steadily advances or declines, as big profits can then be secured.

"If these ideas will help any of the traders who read this column I shall be pleased, because it has taken me a long time to acquire this experience and to discipline myself so that I can follow up my own ideas unaffected by the noise and confusion of the average brokerage house."

Technical and Miscellaneous Inquiries

Signing an Authorization on Margined Stocks

Q.—My broker has asked me to sign an authorization permitting him to use my securities, which he is carrying on margin, as he desires. The authorization states, "I hereby give you the consent mentioned therein (Laws of New York) and authorize you to use any securities in my account in such manner as you may elect whenever and as long as I am indebted to you."

Ans.—Chapter 500, of the laws of New York, 1913, paragraph 2, referring to brokers reads, "Who having in his possession stocks, bonds or other evidences of debt of a corporation, company or association belonging to a customer, on which he has a lien for indebtedness due to him by the customer, pledges the same for more than the amount due to him thereon, or otherwise disposes thereof for his own benefit, *without the customer's consent* and without having in his possession, or subject to his control, stocks, bonds, or other evidences of debt of the kind and amount to which the customer is then entitled, for delivery to him upon his demand therefor, and tender of the amount due thereon, and thereby causes the customer to lose, in whole or in part, such stocks, bonds or other evidences of debt, or the value thereof....... is guilty of a felony, punishable by a fine of not more than five thousand dollars or by imprisonment for not more than two years, or both."

No broker could afford to carry stocks on margin unless the customer did give his consent. He would have to have an enormous capital to not re-hypothecate (borrow from the bank on the customer's securities). It is right to sign this authorization but you must be quite sure of your broker's financial rating and responsibility.

Lost Certificate

Q.—I have lost 10 shares of stock which stood in my name but was not endorsed. I have told my broker about it but am not certain that he is doing all he can to protect me. Please tell me what is the proper procedure.

Ans.—Write a letter to the transfer department of the corporation which issued the stock, giving them the number of the certificate and the name in which it stood. Ask them to stop transfer at once and to advise you that transfer has been stopped. Send a notice of the loss to the Secretary of all exchanges where the stock is bought and sold and insert advertisements of the loss in three or more issues of the most prominent daily newspapers in each of the cities where the exchanges are located and file copies of these papers with the company. When this has been done, write to the transfer company and ask them for further instructions. Corporations in different states have rules which differ from other corporations. You may eventually have to put up a bond of double the par value of your certificate.

Dividends on Outright Purchases

Q.—Please answer the following question for me: On July 8 last, I purchased 3 shares of Northern Pacific Ry. Co. com. stock at 100⅛. It sold ex-dividend on July 9. The date on my certificate is July 11. Was I not entitled to the dividend of $1.75 per share? If I was not entitled to it please tell me who was?

Ans.—We assume that you purchased your Northern Pacific common stock outright, that is, that you were not carrying it on margin. If that was the case, you were not entitled to the dividend payable to stockholders of record July 9, because your name was not recorded on the books of the company until July 11, as you state. Had you been carrying the stock on margin after having purchased it on July 8, you would have been entitled to the dividend because in the case of margin transactions the stocks are considered as being in the name of the purchaser—so far as dividends are concerned—as soon as a buying order is executed. The Northern Pacific stock was evidently not delivered to you until it had been transferred into your name, and hence you were not the lawful holder of it on July 9. The dividend in question was paid to whoever was the accredited owner of the stock on July 9.

Income Tax Returns

Q.—Will you kindly give me information as to how and when to pay the income tax. Do you have to make out a list of taxable securities that you own? I have two unmarried aunts with incomes of about $1,500 each and they want to pay the tax, but as they have never been obliged to pay it before they do not know how to pay it.

Ans.—No return need be filed until after January 1, 1918, and for this purpose forms can be obtained either from the department of Inland Revenue, Washington, D. C., or at the office of the Guaranty Trust Company, in New York. The forms will not be available for some considerable time, so do not advise you to make application for them as yet. We are informed that they will be very simple and should give you no trouble to complete. You will understand that no returns for 1917 are expected until the year has expired.